DOCUMENT RESUME

ED 304 954 HE 022 240

TITLE	Federal Student Financial Aid Delivery Systems. Hearing before the Subcommittee on Postsecondary Education of the Committee on Education and Labor. House of Representatives, One Hundredth Congress, Hearing Held in Missoula, Montana, Second Session.
INSTITUTION	Congress of the U.S., Washington, D.C. House Committee on Education and Labor.
PUB DATE	24 Sep 88
NOTE	194p.; Serial No. 100-99.
AVAILABLE FROM	Superintendent of Documents, Congressional Sales Office, U.S. Government Printing Office, Washington, DC 20402.
PUB TYPE	Legal/Legislative/Regulatory Materials (090) -- Viewpoints (120)
EDRS PRICE	MF01/PC08 Plus Postage.
DESCRIPTORS	Contracts; *Data Processing; *Educational Finance; Educational Legislation; Federal Aid; *Federal Legislation; Federal Programs; Financial Aid Applicants; Hearings; Higher Education; Policy Formation; *Public Policy; *Recordkeeping; *Student Financial Aid
IDENTIFIERS	Congress 100th; Proposed Legislation

ABSTRACT

The U.S. House Subcommittee on Postsecondary Education of the Committee on Education and Labor met in Missoula, Montana for an oversight hearing on the student aid delivery system. An opening statement from Pat Williams is followed by a report of the Advisory Committee on Student Financial Assistance on the issue of multiple data entry (MDE) processors. Attachments include an MDE position paper, report on MDE hearing, and letter to Secretary William J. Bennett. The report conveys to Congress the Committee's recommendations concerning the three issues outlined in the law (assessment of the expansion of the number and type of MDEs and the impact on students and families, examination of the standardization of processing fees paid by the Department of Education to MDE contractors, and evaluation of the payment of development costs associated with delivering MDE services). Additional statements are provided by representatives of the American College Testing Program, College Board, National Association of Student Financial Aid Administrators, Kentucky State University, and Illinois State Scholarship Commission. (SM)

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ED304954

FEDERAL STUDENT FINANCIAL AID DELIVERY SYSTEMS

HEARING

BEFORE THE

SUBCOMMITTEE ON POSTSECONDARY EDUCATION

OF THE

COMMITTEE ON EDUCATION AND LABOR HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

SECOND SESSION

HEARING HELD IN MISSOULA, MT,
SEPTEMBER 24, 1988

Serial No. 100-99

Printed for the use of the Committee on Education and Labor

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90-373 WASHINGTON : 1988

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FEDERAL STUDENT FINANCIAL AID DELIVERY SYSTEMS

SATURDAY, SEPTEMBER 24, 1988

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON POSTSECONDARY EDUCATION,
COMMITTEE ON EDUCATION AND LABOR,
Missoula, MT.

The subcommittee met, pursuant to call, at 9:00 a.m. in the Montana Room, University Center, University of Montana, Missoula, Montana, Hon. Pat Williams [chairman of the subcommittee] presiding.

Members present: Representatives Williams, Jeffords, Martinez, Durbin and Swift.

Staff present: Rick Jerue, Patricia Sullivan, Colleen Thompson, and Larry Zaglaniczny.

Mr. WILLIAMS. Good morning. Let me call to order this meeting of the Subcommittee on Postsecondary Education. This is an oversight hearing on the student aid delivery system.

I am, of course, very pleased to convene this hearing on the campus of the University of Montana. I welcome all of you who have traveled here to join us in my home state to discuss an issue fundamental to the student aid effort; that is, the student aid delivery system.

Today we will hear the report of the Advisory Committee on Student Financial Assistance on the issue of multiple data entry processors. Created in the 1986 amendments to the Higher Education Act, this independent Committee was charged with providing the Secretary of Education and the Congress with advice and counsel about student aid financial matters. Among its many responsibilities, the Committee was asked to evaluate the current student aid delivery system and make recommendations to improve this system.

[The report follows:]

Report To The Congress Of The United States:

Recommendations on

Multiple Data Entry Processors

Advisory Committee on Student

Financial Assistance

August, 1988

SUMMARY

Pursuant to its statutory charge, the Advisory Committee on Student Financial Assistance has conducted an examination and assessment of the structure and costs of multiple data entry processing (MDE). The Committee has reviewed reports, met with Department of Education (ED) staff, completed a position paper, and received oral testimony and written materials from the student aid community.

This interim report conveys to the Congress the Committee's recommendations concerning the three issues outlined in the law:

- assessment of the expansion of the number and type of MDEs and the impact on students and families;
- examination of the standardization of processing fees paid by ED to MDE contractors; and
- evaluation of the payment of (system) development costs associated with delivering MDE services.

In conducting its assessment, the Committee found that these issues have important implications for the entire Federal student aid delivery system and Congress' desire to rationalize delivery through the implementation of a free, common form for individuals applying for Federal aid. Our recommendations are presented below.

Recommendations on MDE Structure and Costs

- Transform the current Pell MDE contracts into Title IV contracts that implement a free, common form for Federal student assistance.
- Expand the number of MDEs to a level that optimizes services to students and institutions.
- Determine the level and range of processing fees paid to contractors through an open, fair, and competitive procurement process that weighs technical factors as strongly as cost factors in proposal evaluation.
- Provide for determination of appropriate, allowable system development costs--not forms development--through normal, competitive processes as in most other ED procurements.

Necessary Actions

The Committee's recommendations can be implemented through relatively straightforward legislative or administrative changes in the structure of the upcoming MDE and Pell procurements.

First, participation criteria must be broadened to allow all technically qualified processors to compete for MDE slots. The services required are not unique. Criteria such as having one's own financial aid form must not be used to arbitrarily restrict competition. Second, the statement of work must be modified to procure delivery of both the Pell and Campus-Based programs through inclusion of the Congressional Methodology. Third, the contracts must explicitly provide for adequate reporting services to students, institutions and states. Fourth, an early diagnostic eligibility service for needy junior high school students should be implemented as part of this contract.

Issues related to the level and variability of processing and system development fees paid by ED to MDE contractors will be eliminated by the proper design of the new MDE procurements.

Timing

The Committee feels strongly that these changes will lead to significant benefits for students and families and move toward the Congressional goals of free application for needy students for Federal aid through a common form. The recommendations above were delivered to the Secretary in a letter dated August 4, 1988. The letter was also forwarded to Congress. In that letter, the Advisory Committee respectfully requested a response from the Secretary within one week. Time is of the essence in that the procurements that will determine the structure and costs of MDE--as well as the near-term future of a free, common Federal form--are now under development. Timely acceptance of these recommendations and resolution of outstanding issues will allow these changes to be implemented for the 1990-91 academic year--thereby minimizing confusion and eradicating application fees for millions of needy students and families.

Copies of the letter to the Congress and the Secretary as well as the Committee's position paper and report on the comments received from the financial aid community are attached.

The Committee will issue a final report on MDE processing when it has received the Secretary's response and the Committee has reviewed the Department's RFP.

BACKGROUND

Through the reauthorization of the Higher Education Act (hereafter the Act) in 1986 and the Higher Education Technical Amendments in 1987, the Congress created the Advisory Committee on Student Financial Assistance and charged the Committee with, among other things, the responsibility to examine and make recommendations on multiple data entry processors. The Act, in Section 483(a)(2), states that:

> The Secretary shall not select new multiple data entry processors after the date of enactment of the Higher Education Amendments Act of 1986, until the Advisory Commission (sic) on Student Financial Assistance has examined and made recommendations on the expansion of the number and kind of processors and its impact of students, has assessed and made recommendations on the relative cost of processing applications and development fees, and has examined and made recommendations on the imple- mentation of a standardized fee for the reimbursement of all processors by the Federal Government.

In addition, the Congress charged the Advisory Committee with evaluating the delivery system, in general, and recommending improvements.

The Committee, consisting of eleven members appointed by the President Pro Tempore of the Senate, upon recommendation of the Majority and Minority Leaders, the Speaker of the House, upon the recommendation of Majority and Minority Leaders, and the Secretary of Education, is actively discharging these and other responsibilities. The Committee meets approximately bi-monthly to hear testimony and consider issues related to its statutory charges. In addition to submitting the annual report, the Committee periodically reports to Congress on specific and notifies the Secretary of Education.

COMMITTEE ACTIVITIES

Since January, Advisory Committee members and staff have been examining the issues surrounding MDE. These activities have included:

- A briefing in January, 1988, by several MDE contractors on the topics of the structure of the contracts and the role they play in the delivery of Federal aid.
- A briefing in April, 1988, by ED staff including an historical overview of the MDE process and the basic structure and schedule of upcoming MDE procurements.

- Review of the Inspector General's report criticizing the current procurements as noncompetitive and costly, and recommending detailed cost/benefit analysis of Pell and other programs.

- Communication with ED to obtain specific information on ED analyses concerning MDE issues.

- Production of a position paper on the issues set forth in the law (attached).

- Public hearings about the Federal student aid delivery system including issues related to the number and type of MDE contractors--at its July meeting in Denver (attached).

- Discussion and formal acceptance of the position paper at the July meeting.

- Recommendations made to the Secretary on August 4, 1988 and to Congress on the MDE issues (attached).

DISCUSSION

Expanding the Number/Type of Processors

The Committee supports the intent of the law to allow an expansion in the number of technically qualified MDE processors. The services required under this contract are not unique and many potential processors appear to have the necessary qualifications. The Committee supports the Inspector General's call for an open, fair, and competitive procurement that is not biased toward existing contractors through arbitrary participation and/or technical evaluation criteria. Furthermore, the Committee sees no reason to limit participation on the basis of type of processor--private, public, etc.

However, expansion in the number and type MDE processors and greater competition within the current structure can be expected to have two negative effects on students and families:

- proliferation of competing forms that deliver Federal aid; and

- increasing the number--and perhaps even the level of--fees to students.

In addition to these two serious disadvantages, uncontrolled expansion in what are now just Pell contracts maintains separate delivery of Pell and other Federal programs and is inconsistent with Congress' movement of need analysis for other Federal programs into the law in the form of the Congressional

Methodology. What is required is a solution that fosters competition, eliminates fees to needy students, reduces the number of forms, and integrates the delivery of Pell and other Title IV programs.

Transforming the Pell MDE contracts into Title IV MDE contracts that implement a free, common Federal form and awarding those contracts through a competitive procurement that weighs technical factors as well as cost will achieve these goals.

The Committee therefore recommends that in addition to expanding the number of MDEs to a level that optimizes services to students and institutions, the following legislative or administrative changes to the MDE procurements:

- open the competition to all technically qualified processors by eliminating arbitrary participation criteria;
- require all processors to implement a free, common form for individuals applying for Federal aid and eliminate the current Federal form as the means for applying for aid without charge;
- change the statement of work to include adequate, standardized reporting services to students and institutions; and
- implement free diagnosis of Federal aid eligibility for junior high school students, with particular emphasis on serving the disadvantaged.

Standardization of Processing Fees

The interest in standardizing processing fees paid by ED to MDE contractors stems largely from dissatisfaction with unacceptably large variations in the negotiated fees under the current contract. However, standardizing such fees using current ranges is inconsistent with open, fair competition among prospective contractors and is a step in the wrong direction.

In addition, these fees should not be standardized to include only the array of services currently delivered by MDE contractors. In order to be successful, the new MDE contracts must include sophisticated reporting, statistical summaries and other services not covered by current MDE contracts.

The Committee recommends that:

- all processing fees be established competitively in response to the array of services required to implement Title IV-wide MDE services; and

- o ED increase competition among contractors to reduce the range of processing costs.

Development Costs

The Government typically allows for and reimburses contractors for modifying data processing systems to deliver required services. Two issues associated with development costs in the current MDE contracts have caused great concern: their negotiated level and variability across contractors; and the possible inclusion of forms development charges. The first will be eliminated by a well-designed procurement in which contractors must trim these costs to be competitive. The second issue is the more important. Since the Committee feels strongly that ED must require use of a common Federal form, costs for forms development must not be reimbursed.

CONCLUSIONS

The Advisory Committee's recommendations foster competition among technically qualified processors, eliminate fees to students to prove they are needy, reduce the number of and confusion associated with application forms, and integrate the delivery of Pell and other Federal student aid programs. The Committee also strongly recommends that ED use the MDE contracts in a proactive manner to provide early diagnostic eligibility data to junior high students. This program should be advertised aggressively to insure that all potentially eligible students--especially disadvantaged students--know of their right to apply for the Federal student aid programs free of charge. Currently, most students are paying fees and are unaware of the changes already made by Congress on their behalf.

The Committee's recommendations are eminently feasible and can be implemented through administrative action. They pose no more difficulty in the areas of procurement scheduling and systems development than ED's proposed plan. The changes required to the participation criteria and work statement of the upcoming MDE procurement are straightforward and could be ready with time to spare.

Finally, the timing is such that the recommendations can be implemented for the 1990-91 academic year if ED acts quickly.

Attachment A

MDE Position Paper

ADVISORY COMMITTEE ON STUDENT FINANCIAL ASSISTANCE

POSITION PAPER:

MULTIPLE DATA ENTRY PROCESSORS

PREPARED BY THE

ADVISORY COMMITTEE STAFF

JUNE 1988

SUMMARY

- The Advisory Committee has been charged by Congress to provide advice and recommendations that improve the delivery of Federal student aid.
- The MDE issue must be viewed as having broad and important ramifications for the whole delivery system.
- The ideal system is an efficient one with a free, common form and simple, accurate and understandable need assessment and program eligibility determination.
- The current system is deficient in that forms are numerous and expensive, need analysis and program eligibility determination unduly complex, and processing redundant.
- The current MDE contracts serve to perpetuate separate delivery of Pell and other Title IV Programs, numerous forms, and processing fees to students and their families.
- Now that both the Pell family contribution schedule and the Congressional Methodology are in the law, this separation, duplication of forms, and processing fees are totally unnecessary.
- The current MDE contracts must be changed from Pell contracts to Title IV contracts with a free, common form--full service, Title IV contracts.
- The separate Pell Application Processing Contract should be eliminated.
- The new MDE contracts must include adequate and timely reporting services to students and institutions and free, early diagnostic services to high school students.
- New MDEs must be selected competitively in an open, fair competition without arbitrary, restrictive participation criteria.
- Both processing fees and development costs should be determined competitively.
- All MDEs must implement a free, common form.

MDE PROCESSOR
DRAFT POSITION PAPER

Introduction

The Advisory Committee on Student Financial Assistance has been charged by Congress with providing advice and recommendations on the improvement of the student aid delivery system. This system has been justly criticized by objective observers as complex, inefficient, and perhaps even deleterious to achieving the equity goals of the Federal student aid programs. In particular, need analysis and program eligibility models are seen as far too complicated, forms too numerous, and the process, which Congress has for years intended to be free to students and families, expensive and time consuming. The Advisory Committee is in a singularly important position to effect change and improvement in these areas. The first opportunity to do so is afforded by the recommendations that the Committee must deliver to the Secretary regarding the structure and cost of the MDE process.

For years, decisions about the various Federal programs have been made in piecemeal fashion. The myriad categorical eligibility requirements and separate delivery systems for Pell, the Campus-based, and GSL Programs are testimony to the fact that a new approach is required--one that considers all Title IV Programs and their delivery simultaneously. While the issues surrounding the MDE structure may at first seem related only to the Pell Program and the procurement of MDE services, they in fact relate to the entire structure of Federal delivery and must be viewed in that context.

Revisiting the structure of the MDE process has been necessitated by dissatisfaction with the non-competitive nature of those procurements. Both the Congress and the IG are on record that these contracts are not unique, will benefit from greater competition, and must not result in adverse effects on students and families. In this last regard, two issues are of critical importance to the Committee; proliferation of forms and fees to students and families to apply for Federal aid.

While the MDE contracts have in the past served to minimize somewhat the negative effects of two separate delivery systems, they have also perpetuated numerous forms and application fees. The primary reason for this was that need analysis - the Uniform Methodology - was used throughout the financial aid community to deliver the Campus-based programs, as well as several institutional and state programs. While students under the existing system file free for Pell, they cannot in general file free for the Uniform Methodology. Thus, the MDE contracts are Pell contracts - not Title IV contracts - and serve to underwrite the existence of different forms and processing fees.

The Congress, however, recently made an historic change in need analysis. The Congressional Methodology is now written into the law and must be used for Federal programs other than Pell. Thus, need analysis occupies the same position now as does the Pell family contribution schedule - in the law subject to yearly revisions by the Congress.

In this new context, it makes little sense to continue to view the MDE contracts as Pell contracts - thus continuing a system without the free common federal form mandated by Congress. The new MDE contracts must be Title IV contracts - delivering all federal programs free to applicants. These contracts must be used as leverage to encourage processors, services, states and institutions to cooperate in simplifying and rationalizing the Federal delivery system. They must be full service, Title IV contracts for students, state agencies, and institutions. Accordingly, they must provide adequate statistical summary reporting. Lastly, they must be centers for free, early application for Title IV aid for needy high school students.

Since these data processing services are not unique and many potential processors can show the necessary qualifications, the selection of MDE processors must be open, fair and competitive - not prejudiced toward existing MDEs through arbitrary participation and technical evaluation criteria. Above all, it must be made known at the outset that winners of the competition will implement a free common form for the Federal programs. Criteria such as having one's own form must not be used to arbitrarily restrict competition or selection - since it runs counter to the objectives of the MDE contracts, as Title IV contracts.

The specific recommendations concerning expanding the number and type of processors can be derived directly from committee objectives and this long-run, integrated view of Title IV delivery:

- Expand the number of MDE processors gradually - but only to agents willing to implement a free, common Federal form.
- Fees (processing) to MDEs should not be standardized; but rather should be a result of the competitive process.
- Development costs should be determined competitively for each contractor but must not be used for reimbursement of forms development.

The following paper provides a more detailed discussion of specific issues.

Background

Since the 1970s, the Department of Education (ED) has contracted with a set of need analysis processors and states to provide application data to the Pell Grant Central Processor, which processed the Federal application directly and produced the student aid reports for all students. These data were collected on their need analysis forms primarily for the Uniform Methodology. The contracts, known as multiple data entry contracts (MDE), permitted some students to complete only one application and to receive a Pell Grant, thus lessening unnecessary duplication of applications. This structure, consisting of separate processors and, in fact, different delivery systems for the Pell Grant and other Title IV programs, was caused by ED's decisions to maintain centralized processing for the range of functions (e.g., application processing, data base management, etc.).

Until the most recent procurement, these MDE contracts were sole-source, negotiated procurements. In the most recent procurement, however, a more competitive process was employed, which reduced prices and increased from three to four the number of MDEs.

Two recent events have affected the environment in which these MDEs operate and the procurements occur and provide a backdrop for the Committee's discussions. First, reauthorization (the 1986 Amendments) altered the environment in several ways including: writing need analysis into the law, calling for a free, common form for all Title IV programs, expanding the number of MDEs, and requiring that the Advisory Committee make key recommendations concerning the number, type, cost and impact of the MDE structure on students. Writing need analysis into the law and requiring a free, common form suggests that Congress would look favorably on moving the functions of these MDE processors from serving the Pell program only, to a broader Title IV function. The second event was the Inspector General's report criticizing the MDE procurements as non-competitive.

In response to these changes, the Department of Education has been considering several alternatives to the current configuration:

- full decentralization of application processing - elimination of the Application Central Processor
- full centralization - elimination of MDEs
- status quo with some technological improvements
- modified status quo - all application functions to MDEs, database management, edits and computes with the Central Processor.

Processing of the Federal form - a major issue - devolves to one of the MDEs in the first and fourth options.

While ED has not made public its choice among the four options, it is clear that the Committee's recommendations on these matters must be seen as part of possibly large shifts in the delivery of Title IV aid.

Organization of the Paper

The following sections of this paper present the purpose and approach that the staff has used in developing the position presented here. The paper presents the ideal Federal system (long-term goals) and the objectives that should be used to evaluate or design short policy proposals. The paper then identifies a set of issues for each basic question (e.g., number of MDEs) and develops recommendations.

Purpose

One of the most important charges to the Advisory Committee is to examine and assess the structure and process of multiple data entry in the delivery of the Pell Program. Specifically, by August 1988, the Committee must provide the Congress and the Secretary its recommendations regarding:

- increases in the number and type of MDE processors;
- standardization of processing fees; and
- payment of developmental (as opposed to processing) costs to MDE processors.

Critical to developing its recommendations in each area is the assessment of impact on students and families of each proposed policy. Committee staff have been examining these issues, discussing them with Department officials, and preparing a position paper to be discussed at our July meeting in Denver. This is a first draft of that position paper for your review and comment.

Approach

Our approach in developing short term recommendations is to first identify several design principles that underpin the ideal Title IV delivery system and required improvements in the long term. These principles emanate in part from our reading of Congressional intent as revealed by recent legislation. They are:

- Simplicity
- Integration
- Decentralization
- Equity

While these design principles are not always easy to interpret and mutually inclusive, it is clear that they represent the desired direction of delivery system changes in the long run.

These principles can be used--indeed must be used--in developing our specific recommendations to the Secretary regarding the next procurement of MDE services. That is, the Advisory Committee will not propose changes (or status quo) in the short run that foreclose important opportunities for simplifying, integrating and decentralizing student aid delivery in the future. Above all, the Committee will not recommend any action in the short term that delays achieving the equity goals of the Title IV programs.

The Ideal System (Federal)

The design principles above can be used to specify the ideal Federal system:

- A free, common form for all Federal programs.
- Simple, integrated need analysis and eligibility rules for all Federal programs that promote equity goals.
- Decentralized, distributed processing with central control of data integrity, disbursement and tracking, and reconciliation.
- A free, early information and eligibility process for junior high school students for all Federal student assistance programs, with particular emphasis on disadvantaged youth.

While these objectives may take time to achieve, no short-term changes should be made that interfere with their achievement in the next three to five years.

Objectives

The structure of the ideal Federal system in turn can be used to derive practical objectives that can be used to evaluate or design short-term policy proposals. In the case of the MDE issue, these objectives seem to be the following:

- The Advisory Committee must recommend actions that reduce the number of forms that deliver Federal aid. Movement must be toward a common form for Federal programs and its development should not be delayed by procurements based on the status quo.

- Similarly, any short-term policy must be consistent with simplifying application and eligibility determination processes for students and families. Changes that make these processes longer or more complex are not acceptable.

- Short-term changes must be consistent with decentralizing those functions related to the student/institution interface. Only database management, disbursement, and reconciliation functions require the current level of centralization.

- All changes must lead to greater program integration. No further fragmentation of means testing, program eligibility determination, or delivery is acceptable. MDE processing must strongly support the acceptance and use of a free, common Federal form and the Congressional Methodology. Changes should not sustain or add to the high costs for students and families to prove need.

- Any changes must enhance the ability of Federal programs to serve the disadvantaged populations--the primary target group for the Title IV programs.

In addition to these objectives, two practical constraints can be identified from Congressional intent and current procurement regulations:

- Disruption to the delivery system of any short-run changes (e.g., procurement features) must be minimized. Students and families must see only improvements.

- Short-term changes to procurements must be consistent with standard, accepted, competitive practice at ED. The MDE contracts are no longer unique and must be designed to produce efficient, effective delivery of MDE services to students and institutions.

The objectives above can be used to identify recommendations to the Secretary and the Congress regarding the upcoming procurement of MDE services. The recommendations must include advice concerning increasing the number and type of processors, imposition of a standardized fee, and payment of development costs to contractors (to convert systems, not forms). Our recommendations are outlined below. Discussion of each recommendation is provided in the next section.

RECOMMENDATIONS

Number of MDEs: Issues

- Should the number be expanded?
- Should constraints be placed on increases in the short run?
- Does it depend on what happens to the Central Application Processing Contract?
- Should that contract continue if the number of MDEs are expanded significantly?
- Should the MDE contracts remain essentially the same (i.e., Pell Contracts) or be Title IV-wide contracts?
- How does the structure of the MDE contracts relate to the goals of a common form and free processing of Title IV aid eligibility?

Number of MDEs: Recommendations

- It is advisable and consistent with the intent of Congress to expand the number of MDE processors only if this leads to implementation of a free, common Federal form for Federal aid.
- It is not reasonable to place arbitrary restrictions on the number of new MDE processors.
- As the nature of the MDE contracts changes, ED should eliminate the redundant application processing functions of its central contractor(s).
- The new MDE contracts must be viewed as "Title IV" processing contracts--not just Pell contracts.
- Their primary goal should be free, distributed processing of all Title IV aid eligibility for needy students.

Type of MDEs: Issues

- Should there be limits on the kind of MDE processors?
- Should all private, "for profit" firms, nonprofit service agencies, state agencies, and institutions be allowed to compete?
- Should limits be placed on participation by agents who are not now processing forms for students and institutions?
- Should "type" be limited by arbitrary participation criteria or technical procurement evaluation criteria?

Type of MDEs: Recommendations

- Only organizations willing to implement a free, common, Federal form should be allowed to participate in the competition.
- It is advisable, in the near term at least, to place some limit on the kind of organizations (corporate experience) that may participate in the MDE competition.
- It is not advisable to restrict participation to exclude large, private contractors or state agencies with considerable experience in student aid processing--especially if the application processing functions of the central processor are to be eliminated.
- Technical factors should be as important as cost factors in the evaluation.

Processing Fees: Issues

- Should processing fees be competitively determined, negotiated or standardized?
- Can such fees legitimately vary across MDE contractors?
- What is the ideal relationship between MDE processing fees reimbursed by ED and application fees charged to students?
- Who should pay for Title IV aid eligibility determination?

Processing Fees: Recommendations

- Processing fees (the amount reimbursed by ED) must be competitively determined.
- It is reasonable, as in most other Federal procurements, for these fees to vary somewhat from contractor to contractor within an acceptable range. It is not in students' or institutions' interest to standardize these fees through a non-competitive process.
- The costs to students of applying for Federal aid must not increase; indeed, more students should be processed at no charge to the student or family.
- Costs must not be shifted to institutions. Current services should be maintained through redesigned MDE contracts.

Development Costs: Issues

- Should development costs be competitively determined?
- What costs are allowable?
- Is it reasonable for development costs to vary across MDE processors?

Development Costs: Recommendations

- Development costs for modifying and converting processing systems should be competitively determined--not negotiated as in the past. This is standard practice in all other ED procurements, even those that select multiple contractors.
- Reasonable system development costs are allowable; development costs for forms development must not be paid.
- Development costs can, indeed should, vary from processor to processor as in most other Federal procurements and multiple award contracts. Contractors should be encouraged to trim such expenses through the competitive process.

DISCUSSION

Number of MDEs

The issue over the number of MDEs used to deliver the Pell Program has arisen because of dissatisfaction with the structure of the MDE procurement process and the contract put in place by ED. Concerns have been expressed about the arbitrary and restrictive participation criteria as well as the negotiated character of processing fees and developmental costs. The major problem according to critics is the uncompetitive nature of the process and an unacceptably wide range of fees and charges reimbursed by ED.

While the Advisory Committee recognizes these concerns, the most important issues relate to designing the next round of MDE procurements to move the delivery system in the direction of the goals identified earlier in this paper. Of paramount importance is the role these contracts and Pell Central Application Processor play in the overall delivery of Federal student aid. The Advisory Committee feels that continuation of the status quo with more MDEs does not move toward these goals. As the number and type of MDE processors expands, the redundancy between these contracts and the Pell Application Processing Contract is simply preserved and becomes much more costly. It is not desirable from a policy or technology standpoint for numerous MDEs, qualified to perform all computational and data transmission functions, to send data to another processor for redundant calculations. Expansion and decentralization of MDE functions must be seen as consistent with the elimination of centralized application processing functions. The database management, disbursement, and reconciliation functions must, however, remain centralized and under the direct control of ED.

As the MDE contracts become more important in the application for Federal aid, it is critical that they be viewed as Title IV-wide contracts. Eliminating the Application Processing Contract without making each MDE a Title IV-wide processor -- i.e., giving one MDE the Federal form -- is an unacceptable solution that continues dual processing. These contracts must be used to further the goal of free application and eligibility determination for Federal programs for needy students. They must be used to move toward a common Federal form and integration of need analysis and program eligibility -- not to underwrite different forms and processing fees.

The services procured by ED under these contracts are <u>not</u> unique and should be structured like other competitive procurements at ED. With regard to the number of MDE processors, several points are important:

- There is evidence that substantial numbers of processors exist who can properly deliver these services to students and institutions.

- Indeed, in a world of decentralized, truly distributed processing, for very large institutions an MDE may be redundant, since these institutions can be electronically linked to a central database management and disbursement system -- especially for reapplications.

These facts suggest the following approach.

- Move gradually to a more decentralized MDE process.

- Select new technically qualified processors.

- Eliminate disruptive competition between existing and new MDEs as to forms and models. Students and institutions are served by competition that brings costs down and increases services.

- Plan for an eventual move to a world of distributed processing where institutions and agencies can be directly linked to ED's central system -- especially for reapplication.

- Redirect resources currently spent in the Application Processing Contract to the MDE contracts to cut costs and make them Title IV contracts.

The Advisory Committee should avoid recommending a given number of MDEs in the short run. Instead, ED should have the flexibility to choose the exact number of processors on the basis of technical and cost information supplied in the competitive procurement process. Indeed, ED should not prescribe a number of MDEs in its RFP to avoid undercapacity. For example, ED may select the five that have the lowest cost and highest technical qualities. However, collectively, these five may not provide adequate capacity for processing applications.

There are also analytic reasons for the Advisory Committee not to recommend a number. Despite requesting from ED information concerning analyses that would underpin such a recommendation, none has been provided. Thus, without adequate cost and capacity data it would be arbitrary to identify an optimal number of MDEs.

Type of MDEs

As long as the services procured from MDEs are specific -- implementation of a free, common form -- and strict standards are

met, there are few grounds on which to limit the type of firm, agency or institution that can participate. However, it is important that prospective MDE processors have the financial and administrative capability to perform the services required. It is also important that ED maintain control of the competitive process and not let a "cost shoot-out" among new paper processors result in wholesale displacement of existing, qualified processors with corporate experience in student aid. At the same time, however, a clear signal should be given to incumbent processors that cost will be an important evaluation criterion.

Expanding the number and type of MDE processors can have two very different impacts on students, families, and institutions. On the positive side, it could lead to more processing alternatives and lower costs. On the negative side, without strict controls it will lead to proliferation of forms, loss of service, greater confusion, and unnecessary and harmful competition among processors. Much of this depends on how ED structures its procurement in regard to participation and evaluation criteria. ED should be planning very carefully for migration to a very decentralized system in which large institutions or consortia of states or institutions might be linked to ED's central data management and reconciliation processor. As long as current MDE processors are encouraged to be cost competitive, a gradual movement is to be vastly preferred to disruptive change.

In summary, ED should use this opportunity to change the MDE procurements to require:

- Use of a common Federal form by all MDE processors; and
- Free processing to students and families for Pell and the Congressional Methodology;
- Standardized, statistical reporting and summary services to institutions at no cost; and
- Free, early diagnostic services for junior high school students.

MDEs should be free to charge fees to students, states, or institutions to collect additional information or provide further services. Institutions and states will likewise continue to gather additional information required for their programs. However, they must accept Federal eligibility reports from any approved MDE contractor, for Title IV aid.

Standardized Fees (Processing)

The interest in standardizing processing fees stems largely from dissatisfaction with unacceptable variations in the negotiated fees under the current contract. However, standardizing such

fees using current ranges resulting from a negotiated contract is much less desirable than determining their level through a truly competitive process. Indeed, standardizing fees, to the extent that it involves a movement away from competition, is a step in the wrong direction.

In addition, these fees should not be standardized to include the array of services currently delivered by MDE contractors. As these contracts move toward "full" service, Title IV contracts, flexibility and competition will be required to determine the array of fees that best serve the interests of the Government, students and institutions.

Development Costs

It is typical for the Federal Government to allow for and reimburse contractors for modifying data processing systems to deliver required services. Two major issues associated with development costs in the current MDE contracts have caused great concern:

- o their negotiated level and variability from contractor to contractor; and
- o more important, the possible inclusion in such costs of forms development charges.

The first issue is a relatively minor one that will be eliminated by a truly competitive, MDE procurement process. ED should design their procurement so that it is virtually impossible for contractors to pass along inappropriate or excessive development costs. The second issue is more important. No reimbursement for costs should occur for forms development. Indeed, the Advisory Committee recommends that ED prohibit the use of different forms for Federal eligibility.

Attachment B

Report on MDE Hearing

ADVISORY COMMITTEE ON STUDENT FINANCIAL ASSISTANCE

REPORT ON MDE HEARING

PREPARED BY THE

ADVISORY COMMITTEE STAFF

AUGUST 1988

REPORT ON MDE HEARING

INTRODUCTION

One of the most important charges to the Advisory Committee is to examine and assess the structure and process of multiple data entry in the delivery of student aid. The Committee has been asked specifically to provide Congress and the Secretary of Education with recommendations relating to the expansion of the number and type of Multiple Data Entry (MDE) processors, payment of costs for developing forms, and standardization of processing fees. Over the spring and early summer of 1988, Advisory Committee staff studied issues related to the selection of MDE processors, the definition of their tasks, and their role in the delivery system for federal student financial assistance. This study resulted in a draft position paper which would form the basis for the discussion of the MDE issue at the Committee's July 1988 meeting.

On July 20, 1988, the Committee held an open hearing on issues relating to MDE processors and their role in the student aid delivery system. The hearing was held in conjunction with the National Association of Student Financial Aid Administrators (NASFAA) annual conference in Denver, and conference registrants were invited to participate. In his letter of invitation, Dr. Dallas Martin outlined the design principles and objectives that the Committee's draft MDE position paper had articulated (see attached).

Twenty-six people offered testimony at the hearing on July 20, 1988. They represent most of the parties interested in federal student financial assistance policy: minority and non-traditional students, financial aid administrators, a pre-college counselor with Talent Search, a state loan guaranty agency, a representative of a state student aid commission, private firms that perform need analysis, and representatives from three of the current MDE processors. The fifteen aid administrators represented every geographic region in the country, and reflected the entire spectrum of higher education: public and private, selective and open admission, 2-year and baccalaureate, vocational programs and large research institutions. (See attached for a list of presenters.)

THEMES

The written testimony of most of the participants is appended to this report, but some general themes were apparent in the discussion and are highlighted here. Those who addressed the

Committee generally endorsed the long term objectives outlined in the Committee's draft position paper on MDE processors:

- o reducing the number of forms needed to deliver federal aid
- o simplifying application and eligibility determination processes for students and families
- o decentralizing the student/institution interface
- o integrating means testing and delivery
- o increasing service to disadvantaged populations
- o processing need analysis forms at low or no cost to students.

While there was support for the general goals expressed in the MDE position paper, presenters articulated a wide variety of strategies for achieving those goals, and occasionally dissented from the Committee's recommendations. A brief summary of the discussion surrounding each of these goals follows.

REDUCING THE NUMBER OF FORMS NEEDED TO DELIVER FEDERAL AID

Nearly every person who testified spoke at some length about inefficiencies and duplication of effort inherent in the current data collection system. Aid administrators claim the number of forms they are required to collect grow every year, and the profusion of forms and complexity of data demands is chilling for students and parents. This was graphically illustrated early in the hearing when one financial aid administrator listed the forms that a typical student might be required to fill out at his institution - forms that cover 143 pages.

It was noted that decentralizing the student/processor interface to the MDEs will have the effect of reducing the number of forms most students need to complete in order to receive aid. Under a decentralized processing system students' Pell application will be incorporated into the application for other forms of student assistance; ideally a single form would determine eligibility for all Title IV assistance.

Reapplication

In the discussion of simplification, questions were raised about the utility of annual reapplication for subsequent years at the same institution. It was suggested that information supplied in the first-year aid application does not change substantially in subsequent years; eliminating reapplication would

substantially decrease the burden on students, parents, and aid administrators without compromising the integrity of the aid programs.

SIMPLIFYING APPLICATIONS AND ELIGIBILITY DETERMINATION PROCESSES FOR STUDENTS AND FAMILIES

The Problem

Those who testified indicated that aid applicants and their families are confused by the changing names, eligibility requirements, deferral arrangements, grace periods, and interest rates that characterize the recent history of federal student financial assistance. They often don't understand which forms they must fill out, what documentation they must provide, why questions are being asked of them, or how their eligibility is determined. The current application forms collect a great deal of information, but for most students a simpler, shorter form would serve as well or better. Several people commented on the increase in complexity due to matters peripheral to need analysis, such as selective service registration, documentation of alien registration, and proposals relating to drug abuse prevention programs. The proliferation of questions designed to identify and aid relatively small groups of applicants has also complicated the form.

Reducing the Number of Questions and Using Professional Judgement

Those who testified at the hearing put forward many suggestions for simplifying the application process. Most felt that the delivery system could be improved by reducing the number of questions on the application and relying on aid administrators' professional judgement to identify and document cases with special circumstances. Under current regulations financial aid officers feel constrained by the verification and audit requirements - in the words of one witnesses "we're data mongers, not counselors." The heavy data demands on students and parents result in high error rates. According to one financial aid director, recalculation is common but rarely results in a significant change in award. Financial aid administrators acknowledge that accountability is important, but fear that verification procedures are absorbing scarce resources.

Eliminating the Collection of Asset Information

Some witnesses suggested eliminating the collection of asset information; others felt that failing to collect information about all financial resources would hamper the ability of financial aid officers to distinguish between wealthy and low-income students, and would ultimately harm those most in need by spreading finite resources over a larger pool of eligible students. Some suggested that a short and simple form be made

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available to the lowest income students (those unlikely to have real estate and other significant assets), while students with greater resources or more complex financial situations might be required to elaborate or file supplementary forms. (A parallel was drawn between this two-form system and the various types of IRS forms - 1040, 1040A, and 1040EZ - and it was even suggested that the tax forms filed by students and their families might dictate the type of financial aid form they should use.) Other presenters suggested that it might still be possible to develop a single modular form to serve such a two-tiered data collection system: students who meet certain criteria (such as income below a certain dollar amount or certification by an appropriate social service agency) would fill out some basic demographic data and sign off; the rest of the students would fill out the entire form.

DECENTRALIZING THE STUDENT/INSTITUTION INTERFACE

Elimination of the Central Processor

Decentralization of MDE processing was championed by most of those who offered testimony; only one of the presenters voiced dismay at the Committee's tentative recommendation to limit the centralized function to data integrity, disbursement and tracking, and reconciliation functions.

Number of MDEs

While there was broad consensus that the processing function should be decentralized, there was less agreement about what the optimal number of MDEs might be. Some felt that greater numbers of MDEs would engender greater competition, forcing processors to lower their prices and offer more services. Others felt that adding even one more MDE processor would create a substantial data management burden and would unduly confuse students and their parents. Most of those who advocated an increase in the number of MDEs cautioned that such an expansion should occur in a measured and orderly fashion, giving aid administrators, students, parents, and loan agencies an opportunity to make appropriate adjustments.

Selection of MDEs

There was general agreement that a more open bidding process would reduce costs, but presenters felt that evidence of technical competence should weigh heavily in the consideration of proposals. In addition to factors such as speed and accuracy many financial aid administrators commented on ancillary services provided by the current MDE processors and suggested that specifications be written to include training, outreach, dissemination, and research services. One witness expressed concern about the potential for abuse or misuse when lenders and

guaranty agencies are allowed to serve as MDE processors, fearing that the data collected might be used to develop prospect lists for the sale of financial services and other products. The Committee asked other witnesses to comment on this prospect, and they acknowledged that while such an abuse was possible, steps could be taken to adequately safeguard students' interests.

INTEGRATING MEANS TESTING AND DELIVERY

Three Models of an Integrated Form

There was unanimous approval for the integration of the Pell application with applications for other Title IV aid, and three models were discussed for a Title IV-wide application: one on which only the data elements would be specified; one on which the sequence of the data elements would also be specified; and one which would dictate every detail of the form, which would be uniform across all processors. These three models range from complete standardization to complete flexibility, and there are strong arguments for both extremes of this range. During discussion some voiced the opinion that complete standardization would be too restrictive; differences in technology might require a variety of data element configurations. Others argued that a regulated sequence of data elements would facilitate the retrieval of information by aid administrators, particularly in institutions that receive applications from more than one MDE processor.

INCREASING SERVICE TO DISADVANTAGED POPULATIONS

Simplification

While all users seem to have trouble with the current student aid applications, presenters stressed that disadvantaged student populations (especially first-generation filers) often find the length and complexity of the forms particularly intimidating and the vocabulary particularly confusing. Rather than providing access, the applications for financial aid are keeping some students out of college. According to one presenter, many college-eligible and aid-eligible students are opting for military service over higher education because the process of enrollment is easier. Many of these students expect that the armed forces will pay for their education, but few actually matriculate upon leaving active duty.

Early Diagnosis and Notification

Financial aid practitioners testified that early notification of financial aid eligibility substantially enhances the likelihood of postsecondary matriculation and is therefore critical to the success of programs designed to serve underrepresented students. They stressed that evaluation and

counseling should occur at least as early as junior high, as students who are secure in the knowledge that they can count on financial assistance for their education are much more likely to complete a precollege curriculum. Early notification also allows families to plan ahead and budget for educational expenses.

Impact of Proposed Default Management Legislation

Both students and aid administrators worried that the default management proposal to hold GSL loan checks for 15-30 days would harm low-income students, who often arrive on campus with little or no money. The lack of access to their loan funds could cause students with scant personal resources not to enroll. Even if students do enroll, they may postpone the purchase of books and supplies, creating an unnecessary academic disadvantage.

PROCESSING NEED ANALYSIS FORMS AT LOW OR NO COST TO STUDENTS

Who Pays?

Everyone found the idea of free processing very appealing (and for low income students absolutely essential). However, a few people recognized that reducing the cost of processing for students translates into increased costs for someone else - either the schools, the Department of Education, or the processors themselves - and were concerned that this new expense would diminish resources available to provide other important services.

Continuing the Free/Fee Dichotomy

A minority of those present suggested that processing fees should only be waived for students who are low income or members of groups underrepresented in higher education. They further suggested that some of the models suggested in the discussion of simplified need analysis (such as the development of a two-part, modular form or an "EZ" form) might lend themselves to easily identifiable free/fee divisions.

OTHER NEED ANALYSIS CONCERNS

There were observations about the current structure of need analysis and suggestions for improved analysis and delivery that went beyond the Committee's short-term focus, and many at the hearing urged the Committee to consider a variety of suggestions for further study. One person asked that the formula basis for determining the Standard Maintenance Allowance be reviewed, and perhaps adjusted for regional variations in the cost of living. Administrators in vocational institutions expressed a need for accommodation of other than 9 month programs. One administrator asked the Committee to recommend the restoration of the Special

Condition Form to the delivery process for documenting special cases, such as death of a spouse. Two people mentioned the possibility of using several years' information to assess parental ability to pay. Another presenter urged the elimination of the overaward provisions in Congressional Methodology, allowing CM to be decoupled from the allocation of institutional (non-federal) funds. While recognizing the necessity of audit and program review functions, aid administrators unanimously agreed that "policing" by ED is overemphasized, and felt that better training programs would more efficiently and effectively address the problems of misusing funds.

Finally, there were questions raised about the logic behind need analysis policies and formulae: Is it incongruent with society's financial priorities? Does the system punish those who plan for their retirement, systematically save for their childrens' education, or otherwise demonstrate sound, responsible financial planning behavior? Aid administrators and students told the Committee that families perceive budgets, cost estimates, and needs analysis (particularly base year income) as inaccurate and perhaps not fair. They worry that these perceptions undermine the credibility of the student financial aid delivery system and diminish the cooperation necessary to make it work. They urge the Committee to expedite the review of these issues.

Attachment C

Letter to Secretary William J. Bennett

Advisory Committee on Student Financial Assistance

August 4, 1988

The Honorable William J. Bennett
Secretary
Department of Education
400 Maryland Avenue, S.W.
Washington, D.C. 20202

Dear Secretary Bennett:

The Advisory Committee on Student Financial Assistance was charged by Congress to make recommendations to you and the Congress concerning the structure and costs of Pell multiple data entry (MDE) processing. In particular, the Committee was to assess the impact on students and families of increases in the number and type of processors, standardization of processing fees charged by contractors, and payment of system development costs associated with providing the necessary services. The Committee has considered the issues, heard public testimony, and arrived at a set of recommendations that represent an important opportunity for the Department of Education (ED) to simplify, rationalize, and integrate the delivery of Federal student aid programs. The timing is fortuitous in that these recommendations can be implemented easily through changes in the upcoming MDE and Pell procurements in time for the 1989-90 academic year.

Briefly, our recommendations are these:

- transform the current Pell MDE contracts into Title IV contracts--vehicles that support the delivery of all Federal student aid programs;
- require all MDE contractors to implement a standard, free common form for Federal programs through a specific participation criterion;
- redesign the services required under the contracts to include adequate and timely reporting by MDEs to students and institutions including an eligibility report, and early, diagnostic, eligibility services for junior high students with particular emphasis on low-income students in order to provide greater access to postsecondary education;

Room 4600, ROB-3, 7th and D Streets, S.W., Washington, D.C. 20202 202/732-3955

An independent committee created by Congress to advise on student aid policy.

- secure qualified processors through an open, fair, and competitive procurement that weighs technical factors as highly as cost and eliminates such arbitrary participation criteria as processing one's own form or electronic student aid reports;

- determine all processing fees--unit and system development charges--competitively as in other ED procurements;

- exclude forms development costs as reimbursable expenses under the contract; and

- increase the number of MDEs to a level to ensure optimum capacity and services to students and institutions and to minimize costs to ED.

We believe these important changes will have considerable long-term benefits for students, families, institutions, states and the Federal Government. These changes will also advance one of your priorities: simplifying the student aid program. Furthermore, if combined with elimination of applicant processing by ED's central Pell contractor, the costs of the changes likely will be negligible.

Background and Rationale

The current MDE contracts have been criticized as uncompetitive. Their participation criteria have arbitrarily excluded parties who have the qualifications to perform the required services. Their fee structure for both unit processing and system development charges has resulted from negotiation, not competition, and accordingly reflects wide disparities from contractor to contractor. It is largely these valid criticisms that account for the charge by Congress to the Advisory Committee to examine closely and submit recommendations concerning the MDE issue before allowing ED to expand the number and type of contractors. If these were the only problems, a relatively simple change only in participation criteria and technical evaluation in the MDE procurement would suffice.

In fact, the problems run much deeper. The structure of the current MDE contracts serves to perpetuate separate delivery of Pell and other Title IV programs, numerous and competing forms, and processing fees to needy students and families. This structure is directly at odds with Congress' writing of need analysis into the law (the Congressional Methodology) as well as its explicit, long standing, legislative mandate to provide a

free, common form for individuals applying for Federal student aid. Consequently, the Advisory Committee believes that the complexity of student aid delivery and unnecessary fees charged to students and parents applying for Federal student aid, as well as a lack of competition, are the most serious issues facing ED in its upcoming MDE and Pell processing procurements.

While ED has not formally provided the Advisory Committee with its plan to modify and correct the MDE structure, we understand that it has tentatively agreed on the following solutions:

- Expand competition somewhat but continue to preclude large, private data processors, as well as many small need analysis processors, from the competition--possibly using criteria of having one's own form and high processing volume.

- Award the current Federal form (AFSA) to the best/lowest bidder in the MDE competition.

- Eliminate the application processing portion of its Pell application processing contract.

- Avoid negotiated or standardized fees and, rather, determine all processing and system development costs competitively.

Although the Committee welcomes the last two of these changes as a step in the right direction, we find the first two unacceptable solutions to both the need for greater competition, and, more importantly, the need to move toward the goals of a free, common form for Federal student aid and integration of program delivery.

We sympathize with ED's desire to prevent unbridled competition from disrupting the current delivery of Federal student aid. There is simply no question that uncontrolled expansion in the number and type of MDE processors will destabilize the delivery system--primarily by proliferating forms, confusion and processing fees. But to continue to arbitrarily limit competition while allowing the delivery of Pell and other Title IV programs to be fragmented--and make no progress toward the Congressional goals of integrated delivery of the programs through a free, common form--is not the answer. Indeed, the current plan to maintain the AFSA and award the processing of this application to one of the MDEs perpetuates fragmentation of program delivery, proliferation of forms and stifles competition.

It is for this reason that the Advisory Committee strongly recommends an open competition with the requirement that MDE contractors must implement a free, common form for Federal aid that provides each student with his or her eligibility for Pell and other Title IV programs. The Advisory Committee recognizes that need analysis services, state agencies, and institutions may continue to collect and charge for data in addition to those required for Federal eligibility determination in separate parts of their forms for use in delivering state and institutional aid.

A network of Title IV MDE contractors would eliminate the need for a central application processor (contractor). It would not, however, eliminate, and might increase, the need for central control of calculation, editing, corrections, disbursement, and reconciliation functions. These activities and responsibilities, as well as a modified, central tracking and disbursement system, must continue to reside with ED. This central repository could very well evolve into the national data base for all Federal Title IV programs.

For this solution to work, the newly reconfigured Title IV MDE contracts must require adequate and timely distribution of forms and reporting to students and institutions. These services, to the extent possible, should be modeled after the current reporting and support relationship that exists between the need analysis services, students, and institutions. In addition, special arrangements should be made to ensure that Title IV MDEs can process early, diagnostic eligibility determination for junior high school students, especially disadvantaged students.

The Advisory Committee feels strongly about these recommendations and believes that they will significantly improve delivery of student aid. The Committee urges immediate administrative or legislative action to secure the necessary changes in both the participation criteria and work statement governing the upcoming MDE procurements. We, therefore, respectfully request a formal response to our recommendations within one week so that we can provide to Congress a report on our recommendations and your response in a timely manner. We will provide you with a copy of this comprehensive report when it is forwarded to Congress.

I have directed the Committee staff to meet with you or your staff to discuss these issues and answer questions. Please let our Staff Director know when such a meeting can be scheduled.

Honorable William J. Bennett
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Mr. Secretary, the Committee believes that the Department and the financial aid community have a unique opportunity to make unparalleled progress toward simplifying the delivery of aid and enhancing access for needy students. The Advisory Committee fully supports and stands ready to assist you in making the changes necessary to achieve such progress. Let us not miss this opportunity.

Sincerely,

James R. Craig
Chairman

More specifically, the Committee was asked to evaluate and make recommendations on the use of the multiple data entry, MDE, processors in the delivery of aid to students. The statute prohibits the Secretary from selecting new MDE processors until the Committee has made its report.

In addition to hearing from members of that Committee, we have also invited representatives from the Department of Education, to comment on the Advisory Committee's report and to discuss with us how these recommendations could be incorporated into the upcoming competition for MDE contracts.

Finally, we will hear from current MDE processors regarding their concerns with the Advisory Committee report.

We will hear a great deal of discussion today about data elements and standardized outputs and free application forms, but let us all keep in mind the ultimate user of these services, the student and his or her family. The 1980 and 1986 amendments to the Higher Education Act made significant changes in our system of Federal financial aid, and perhaps we need to modify the delivery system to reflect these changes.

This Subcommittee is committed to preserving the integrity of the student aid programs while also ensuring that Congressional intent regarding student aid delivery; that is, a common, free form is put into action.

I will call on the most senior ranking member of the House Education Committee, my friend and colleague from Vermont, Congressman Jeffords. Jim, I am delighted to have you in Montana and very much appreciate you being with us.

Mr. JEFFORDS. Thank you very much, Pat. It is a pleasure to be with you and I certainly appreciated you coming to Vermont sometime ago in a snow storm, so that you could see that you are not the only place that has such problems in late spring. We had a good hearing there and I am looking forward to a good one today.

I also want to commend you and your tremendous effort on behalf of the students and colleges of America. I have enjoyed working with you not only on this matter but many other matters. Sometimes in the good old independent way of Montana and Vermont, we sometimes stand alone, as we have recently—I will not get into details because it might cause some controversy, but we have had an opportunity to do some battles and I think we will win them eventually even though there were only two of us.

I would also be remiss if I did not mention that I also serve on the Agriculture Committee with the other member of the Montana delegation, Ron Marlenee, also a good friend of education and a tremendous battler for the interests of Montana. I will tell you, you have got two great fighters. Pat, not only have you been most valuable to all of us on the Education Committee, but also the Budget Committee, where nowadays we find many of our battles have to be fought in order to provide the adequate assistance for our colleges and students.

I am looking forward to the testimony today. This might not be a front line New York Times article, but I will tell you, as a parent who has battled with the forms, not because I needed them but because they were imposed upon me when I tried to get some PLUS loans. To take one look at what I would have had to fill out if I had

not had the knowledge to tell them that I did not have to fill them out. I can understand why we are here today and perhaps we will do some good. It is going to be an interesting battle between too many forms with collectively too much or too little information individually, along with one long form that may have too many things and is too complicated.

So it will be interesting to hear the battle of the forms today. I will tell you, you are talking about millions and millions of Americans that are going to have to sit down and do that battle, and we just want to make the field as simple and as easy to play as we possibly can.

Thank you.

Mr. WILLIAMS. Thank you, Jim. On the flight out here, I was going to hand out to the members this form that I have in front of me. I brought one for each one of them to see if they could fill it out on their way out here, but my staff told me I might ruin the trip, so I decided not to do that.

Although they tell me they do not want to take the time to make opening statements, I do want to introduce my colleagues that are here with me today.

First is Matthew Martinez. Marty came to Congress I believe in 1982, is a valued member of the House Education Committee and even more valued member of our Postsecondary Education Subcommittee. Marty, we are delighted that you are with us here in Montana.

Mr. MARTINEZ. Thank you, Pat. I do not want to make an opening statement, but I just want to comment and commend your staff for not giving us these forms. As I opened the book and saw one—actually I was interested in looking at the form, and as I looked at the form and went through it briefly I started to get the idea that if anyone could fill this out, they do not need a college education. [Laughter.]

Mr. MARTINEZ. More than that, it seems to me that the information required on these forms is more a deterrent to a loan than an application for it. It seems like they want such family history and background to determine whether you are going to defraud the Government or not, that they create what I would consider a tremendous obstacle. At least I know that in the area that I represent, it would create an obstacle for many of the young people trying to get a higher education.

So I look forward to these hearings to find out if there is not some way that we could make it simpler for them to get what was intended by Congress, an opportunity to a full and meaningful education for everyone.

Thank you.

Mr. WILLIAMS. Thank you, Marty.

Our next is a member of Congress to whom I am particularly grateful because we pursued in Congress and at the same time to [illegible] Congressman [illegible] Washington, who represents the area in and around Puget Sound. That region of the [illegible] of Congress who speak a third and so much to produce jobs from the timber and fish and [illegible] and all of those [illegible].

Mr. WILLIAMS. Although not a member of the House Education and Labor Committee he is a member of the Energy and Commerce Committee.

tee and one who as a member of that Committee is particularly interested in education and was eager to be with us here in Montana. Al, I also appreciate your attendance at this hearing.

Mr. SWIFT. I believe the appropriate response is to say I am not going to make an opening statement and then to make one. [Laughter.]

Mr. SWIFT. Well, Pat and I have been in Congress for ten years and we understand the ropes now and that is the way you always do it. I am pleased to be here, especially with you, Pat, because we always do have an affinity in Congress for the people that you arrived there with. I am delighted to be here.

Mr. WILLIAMS. Our colleague, Dick Durbin from Illinois, is not only here because he is a good friend, but also because he is a member of the House Appropriations Committee. We place that responsibility here to keep track of the student money. When I came to Congress with Dick and Tom Evans very quickly we gravitated to the seat on the Appropriations Committee. I am glad you are here with us in Montana, Dick.

Mr. DURBIN. Thanks, Pat. I will just say I want to start by confessing my conflict of interest. I have filed out forms of these forms for my kids in college and I would have to say compared to the crystal clear clarity of the income tax forms which we promulgate, these are very challenging. I do not know how the average Montana student would handle this kind of a challenge, and I am glad we are going to address it today in a hearing.

Mr. WILLIAMS. I am pleased to note that the members do not come to this hearing with a bias——

[Laughter.]

Mr. WILLIAMS. I know those who testify will be able to clarify the issue beyond what it already is.

Let us ask our first panel, James Craig and Brian Fitzgerald who will be representing Dr. Burse, the President of Kentucky State University at Frankfort. If both you gentlemen will come forward.

Mr. Craig is the Director of Student Financial Aid at Montana State University at Bozeman, but perhaps more important for our purposes, he is the Chairman of this Advisory Committee on Student Financial Assistance. Jim, it is nice to see you this morning. Please proceed.

STATEMENTS OF JAMES CRAIG, DIRECTOR OF STUDENT FINANCIAL AID, MONTANA STATE UNIVERSITY, BOZEMAN, MT AND CHAIRMAN, ADVISORY COMMITTEE ON STUDENT FINANCIAL ASSISTANCE; AND BRIAN FITZGERALD, STAFF DIRECTOR, ADVISORY COMMITTEE ON STUDENT FINANCIAL ASSISTANCE

Mr. CRAIG. Good morning. Mr. Chairman, it is certainly a pleasure to represent the Advisory Committee here before the Committee this morning. Perhaps I can indicate that, as you know, the Advisory Committee was formed by Congress and charged with certain duties and responsibilities to provide advice and recommendations to Congress and to the Secretary of Education on matters related to the Federal student aid programs. It is an important task

tions, but most important the Committee is charged of course with monitoring, appraising and evaluating the effectiveness of the student aid delivery and to recommending improvements.

We are here before you today to discuss the specific charge contained in that law—to assess the impact of changes in the multiple data entry system on students and families—I certainly feel that it is important to stress that the Committee has addressed the MDE issue as it has all others, within the overall context of improving the delivery of Federal student aid programs. I feel this is especially important, however, because the events that will untold this winter and spring literally will determine the fundamental form of the delivery system into the middle of the next decade—well beyond reauthorization.

In that regard I would like to share with you and the other Subcommittee members this morning the objectives that we have agreed upon from the law that are guiding the Committee in all of its deliberations.

First of all, simplicity. In modifying and improving the delivery system we must never lose sight of the fundamental goals of the programs—equal educational opportunity—and that every effort be made to change the least complicated, timely and understandable manner of delivering funds to needy students.

Integration. We must continue to search for and find a means to provide different types of aid from programs with different purposes and requirements in a unified manner to those students.

Equity. The delivery system should be driven by the underlying equity goals of the programs and not interfere with those goals or make them more difficult to attain.

I am sure everyone in this room would agree with these objectives and is willing to work hard to achieve them. The Congress, in fact, has gone a step further and articulated several specific design principles which can be directly inferred from the statute:

(1) A free, common form for all Federal programs, without cost to the student;

(2) Simple, integrated need analysis and eligibility rules and processes for Federal student aid programs;

(3) A decentralized, distributed processing with centralized control of data integrity, disbursement, tracking and reconciliation; and very important,

(4) Effective outreach to low income and disadvantaged students.

While people may of course differ with the exact wording or specifics of implementation, we have thus far, in all our deliberations, met with unanimity regarding these principles. I think it is important to note that these principles predate—and I emphasize predate—the Committee. Can and might be derived from the law, and have been important objectives for the Congress for quite some time.

Similarly, I think it is also very important to understand that the objectives of the MDE system are an integral part of the Congress and before the Committee was formed, during, and as the Committee develops plans or recommendations, forty days must undergo the same rigor that characterizes the MDE effort and much of the progress made thus far in building a good delivery system. To fully appreciate the Committee's position and

recommendations, it is essential to see the Committee as reacting to and assessing these forces—not causing or initiating them.

Before describing the forces about to be set in motion which threaten to destabilize the delivery system, let me briefly recount the activities the Committee has undertaken in the MDE matter.

In January of this year, our Committee members were briefed by several MDE contractors on the structure and role of the contracts.

Later, our Committee members were briefed by Department of Education staff on the history and structure of MDEs and the schedule of the procurements that provide the services.

The Committee staff performed a detailed review and assessment of the Inspector General's report criticizing the MDE procurements as non-competitive and costly.

The Committee staff produced a position paper for members.

The Committee held public hearings related to the MDE issues prior to our July meeting in Denver. The Committee heard from 30 students, financial aid administrators, state agency representatives and need analysis processors.

During the July meeting this year, the Committee deliberated the issues and accepted the position paper, which it subsequently shared with the Congress, ED and the community. The Committee made recommendations to the Secretary on August 4, 1988.

The Committee delivered its Report to the Congress on those recommendations last month and briefed Congressional staff prior to the hearing.

I review these activities that occurred over these nine months primarily to demonstrate that the Committee has devoted considerable time and resources to the MDE issue, has been open in its deliberations and receptive to all information and points of view, and has met its responsibility to the Congress and Education Department to carefully consider the issues and make recommendations. I might add that the Committee has also moved expeditiously on the MDE issue so that ED's procurement schedule would not be jeopardized—and was careful to make recommendations that are easily implemented through modest changes in the upcoming procurements. I might add that these changes would be implemented for the 1990-1991 academic year.

Let me turn now to the specific issues at hand. Responding to criticisms of the lack of competition and costliness of the MDE contracts, and pressure from Congress to open up the MDE competition, the Education Department has recently been forced to eliminate participation criteria that heretofore excluded many capable parties from bidding. The Committee applauds this move and feels that it will remove the cloud over these contracts caused by the IG report. In point of fact, the services required are not unique and can be delivered by many agencies, firms, consortia and even many private institutions. We believe under the right conditions, this change could dramatically strengthen the capacity and performance of the MDE system.

Let me return for a moment, however, to one point that is especially important for your Committee, indeed the whole community, to understand. Before the Advisory Committee became involved with the MDE issue, there was widespread dissatisfaction with the lack of competitiveness, as well as their costliness.

Indeed, the IG had strongly recommended that the structure of a separate Pell delivery system and an MDE system should be re-evaluated. The Congress had also had major problems with the MDE procurements wanting the number of processors expanded, but having questions about the impact on students and institutions.

The Education Department was well on its way to being forced to open up the competition. At this point the Advisory Committee entered the picture and was charged by Congress to address the impact of such a move. The Committee naturally advised the Education Department that Congress and the IG were right, that the competition must be open, fair and, I stress, competitive.

In this context, the desire of Congress to expand the number of MDEs was more than welcome to the Committee. If the Education Department only opened the competition and was not directed by Congress to choose at least five contractors, there was a distinct possibility that new MDE processors would displace existing ones, causing major disruption in Federal student aid delivery. The Committee thus accepted both the notion of competition and expansion as given to avoid this outcome.

It is important to understand that there was the Committee's assumed point of departure, critics of the Committee who claimed that we, the Committee proposed expansion, are sincerely misinformed. Rather, expansion seemed clearly Congress' intention and would give Education Department more flexibility in turning out a competitive procurement. Whether the Congress, the Inspector General or the Advisory Committee, or all three, finally changed the Education Department's mind is only speculation, but for the record, our information is that no arbitrary participation criteria will be used to limit competition in the next round of procurement.

While this is definitely a step in the right direction, at the same time, however, opening up the competition can be expected to lead, without strict controls, to several undesirable effects:

Forms will proliferate as new MDE contractors are selected;

The number of MDEs charging fees to students as a prerequisite to obtaining Federal processing will increase;

Non-standard output to students and institutions will increase greatly; and

Confusion among low-income, disadvantaged students almost surely will intensify.

Because of the importance and likelihood of these effects, let me clarify why each will come about.

New MDE processors will be tempted, indeed encouraged, to use their own form, with Federal data embedded, including supplementary data as desired. That is, competition can be expected to foster product differentiation through the use of different forms.

In order to maximize return, a "Federal aid only" free application option will be discouraged by sending such students to the AFSA processor for free processing and a fee will be charged all students using the new MDE services.

Competition will also foster differences in the structure and content of output to students and especially institutions, as new MDEs cater to different populations.

Students—especially low-income, disadvantaged students—will be confused by the resulting multiplicity of forms, fees, processes and output.

In the Committee's assessment, the question is not whether these will occur, but how bad it might be. It is important to understand again that forms proliferation will result from uncontrolled expansion in the number of MDEs, not as a result of the Advisory Committee recommendations as suggested perhaps by certain elements of the aid community.

All of this of course would represent academic speculation if it were not for the fact that the Education Department, in spite of the Advisory Committee recommendations, appears about to launch a procurement that is deficient in design in several specific regards:

(1) Maintenance of a separate Federal form to be awarded to one of the MDEs;

(2) Continued, conscious undersupport of this form and associated delivery that is unable to deliver the Pell Family Contribution Schedule and Congressional methodology effectively;

(3) No requirement for a common form, common Federal front end, or clear designation of Federal data;

(4) Allowing existing and new MDEs to continue to charge student fees without offering a meaningful option for processing without charging for Federal aid using their form;

(5) No standardization of output from MDEs to students or institutions; and finally,

(6) Inadequate provision for reporting services to institutions and students using only the Federal form.

A procurement such as this literally guarantees the negative effects recited earlier and is a step backward in our process toward simplified, integrated, free processing of Federal eligibility. The undersupport of a Federal form that cannot deliver Pell and the Congressional methodology effectively will ensure that over a million low-income students and families will continue to pay fees each year to obtain processing for Federal aid.

In all honesty, I must temper my remarks by stating that the Committee earnestly believes that this is to be the Education Department's position. Adequate responses to general recommendations or to specific Committee questions regarding such controls have not been provided. The Committee is caught between a responsibility to make specific recommendations on the MDE contracts, especially with regard to impacts of increases in MDE processors on students and institutions, and a reluctance on the Education Department's part to share information about the procurement. However, we feel that these issues are so fundamental that it is incumbent upon the Education Department to share with Congress—indeed the whole community—how it intends to prevent these undesirable effects from taking place.

For the record, the Committee in its letter to Secretary Bennett on August 4, 1988 and its August 24 briefing of Undersecretary Wright, sought specifically to head off such events. During the briefings we asked specifically how will the Education Department through the MDE procurement ensure that:

Alternate forms will not proliferate when the MDE competition is opened up?

That no MDE contractor charges any student directly or indirectly for processing Federal eligibility?

That all students and families are aware that they can apply free for Federal student aid programs?

And that standard reporting to students and institutions is adequate?

To date, the Committee has not received answers that lead us to believe that the necessary controls will be put in place.

Mr. Chairman, the Federal Government has certainly a unique opportunity to play a leadership role by cutting through the complexity and confusion with a sound, simple, unified Federal delivery structure. States and institutions have expressed willingness to support the Congress and the Department in achieving widely held goals for student aid. This opportunity likely will be lost unless fundamental, straightforward issues are addressed immediately and the Department follows through administratively in conjunction with the student aid community. These issues include fees to students, standard output to students and institutions and adequate support of the Federal form and its delivery.

We have submitted for the record the papers and reports that explain our recommendations in detail. I would now like to give the floor to Brian Fitzgerald for some additional remarks about what we must do in the short run to avoid these otherwise inevitable effects.

[The prepared statement of James R. Craig follows:]

TESTIMONY BY

JAMES R. CRAIG, CHAIRMAN

ADVISORY COMMITTEE ON STUDENT FINANCIAL ASSISTANCE

BEFORE THE

HOUSE SUBCOMMITTEE ON POSTSECONDARY EDUCATION

AT THE

UNIVERSITY OF MONTANA

MISSOULA, MONTANA

SEPTEMBER 24, 1988

Good morning Mr. Chairman. It is a pleasure to represent the Advisory Committee on Student Financial Assistance before your Committee today. As you know, the Advisory Committee was formed by the Congress and charged with broad responsibilities to provide advice and recommendations to the Congress and the Secretary of Education on matters related to the Federal student aid programs. Among its most important functions, the Committee is charged with monitoring, apprising and evaluating the effectiveness of student aid delivery and recommending improvements. While we are here before you today to discuss the specific charge contained in the law--to assess the impact of changes in the multiple data entry system on students and families--I feel it is important to stress that the Committee has addressed the MDE issue as it has all others--within the overall context of improving the delivery of the Federal student aid programs. This issue is especially important, however, because the events that will unfold this winter and spring literally will determine the fundamental form of the delivery system into the middle of the next decade; well beyond reauthorization.

In that regard, I would like to share with you and other subcommittee members the objectives that we have drawn directly from the law that guide the Committee in all of its deliberations:

- Simplicity - that in modifying and improving the delivery system we never lose sight of the fundamental goals of the programs--equal educational opportunity--and that every effort be made to choose the least complicated, timely and understandable manner of delivering funds to needy students.

- Integration - that we continue to search for and find the means to provide different types of aid from programs with different purposes and requirements in a unified manner to those students.

- Equity - that the delivery system be driven by the underlying equity goals of the programs and not interfere with those goals or make them more difficult to attain.

I am sure everyone in the room agrees with these objectives and is willing to work hard to achieve them. The Congress, in fact, has gone a step further and articulated several specific design principles which can be directly inferred from statute:

- a free, common form for all Federal programs;

- simple, integrated need analysis and eligibility rules and processes for Federal student aid programs;

- decentralized, distributed processing with centralized control of data integrity, disbursement, tracking and reconciliation; and

- effective outreach to low-income and disadvantaged students.

While people may differ with the exact wording or specifics of implementation, we have thus far, in all of our deliberations, met with unanimity regarding these principles. I think it is important to note that these principles predate the Committee, can--once again-- be derived from the law, and have been important objectives for the Congress for quite some time.

Similarly, I think it is also very important to understand that the structure of the MDE system was an important issue for the Congress well before the Committee was formed. Indeed, independent of any Committee deliberations or recommendations, forces have been underway for some time that threaten the MDE structure and much of the progress made thus far in building a good delivery system. To fully appreciate the Committee's position and recommendations, it is essential to see the Committee as reacting to and assessing these forces--not causing or initiating them.

Before describing the forces about to be set in motion which threaten to destabilize the delivery system, let me briefly recount the activities the Committee has undertaken in the MDE matter:

- In January of this year, our Committee members were briefed by several MDE contractors on the structure and role of the contracts;

- Later our Committee members were briefed by Department of Education (ED) staff on the history and the structure of MDEs and the schedule of the procurements that provide the services;

- Committee staff performed a detailed review and assessment of the Inspector General's report criticizing the MDE procurements as noncompetitive and costly;

- Committee staff produced a position paper for members;

- The Committee held public hearings related to MDE issues prior to our July meeting in Denver. The Committee heard from 30 students, financial aid administrators, state agency representatives and need analysis processors;

- During the July meeting the Committee deliberated the issues and accepted the position paper, which it subsequently shared with the Congress, ED and the community;

- The Committee made recommendations to the Secretary on August 4, 1988; and

- The Committee delivered its Report to the Congress on those recommendations last month and briefed Congressional staff prior to this hearing.

I review these activities that occurred over nine months primarily to demonstrate that the Committee has devoted considerable time and resources to the MDE issue, has been open in its deliberations and receptive to all information and points of view, and has met its responsibility to the Congress and ED to carefully consider the issues and make recommendations. I might add that the Committee also moved expeditiously on the MDE issue so that ED's procurement schedule would not be jeopardized--and, was careful to make recommendations that are easily implemented through modest changes in upcoming procurements. (These changes would be implemented for the 1990-91 academic year.)

Let me turn now to the specific issues at hand. Responding to criticisms of the lack of competition and costliness of the MDE contracts--and pressure from Congress to open up the MDE competition--ED has recently be forced to eliminate participation criteria that heretofore excluded many capable parties from bidding. The Committee applauds this move and feels that it will remove the cloud over these contracts caused by the IG report. In point of fact, the services required are not unique and can be delivered by many agencies, firms, consortia and even many large institutions. We believe that under the right conditions this change could dramatically strengthen the capacity and performance of the MDE system.

Let me return for a moment, however, to one point that is especially important for your Committee, indeed the whole community, to understand: before the Advisory Committee got involved with the MDE issue,

- there was widespread dissatisfaction with their lack of competitiveness, as well as

- their costliness

Indeed the IG had strongly recommended that the structure of a separate Pell delivery system and an MDE system should be reevaluated. The Congress also had major problems with the MDE procurements wanting the number of processors expanded but having questions about the impact on students and institutions.

ED was thus well on its way to being forced to open up the competition. Enter our Advisory Committee charged by Congress to assess the impact of such a move. The Committee naturally advised ED that Congress and the IG were right--that the competition must be open, fair and competitive.

Whether the Congress, the IG, or the Advisory Committee, or all three, finally changed ED's mind is only speculation. But, for the record, our information is that no arbitrary participation criteria will be used to limit competition in the next round of procurement.

While this is definitely a step in the right direction, at the same time, however, opening up the competition can be expected to lead without strict controls to several undesirable effects:

- o forms will proliferate as new MDE contractors are selected;
- o the number of MDEs charging fees to students as a prerequisite to obtaining Federal processing will increase;
- o nonstandard output to students and institutions will increase greatly;
- o confusion among low-income, disadvantaged students almost surely will intensify.

Because of the importance and likelihood of these effects, let me clarify why each will come about.

- o New MDE processors will be tempted, indeed, encouraged to use their own form--with Federal data imbedded--including supplementary data as desired. That is, competition can be expected to foster product differentiation through the use of different forms;
- o In order to maximize return, a "Federal aid only" free application option will be discouraged by sending such students to the AFSA processor for free processing; and a fee will be charged all students using the new MDE services;
- o Competition will also foster differences in the structure and content of output to students and especially institutions--as new MDEs cater to different populations;
- o Students--especially low-income, disadvantaged students--will be confused by the resulting

multiplicity of forms, fees, processes, and output.

In the Committee's assessment, the question is not whether these phenomena will occur but how bad it might be. It is important to understand, again, that forms proliferation will result from uncontrolled expansion in the number of MDEs--not as a result of Advisory Committee recommendations as suggested by certain elements of the aid community.

All of this, of course, would represent academic speculation if it were not for the fact that ED, in spite of Advisory Committee recommendations, appears about to launch a procurement that is deficient in design in several specific regards:

- maintenance of a separate Federal form to be awarded to one of the MDEs;
- continued, conscious undersupport of this form and associated delivery that is unable to deliver the Pell Family Contribution Schedule and Congressional Methodology effectively;
- no requirement for a common form, common Federal front end, or clear designation of Federal data;
- allowing existing and new MDEs to continue to charge student fees without offering a meaningful option for processing without charging for Federal aid using their form;
- no standardization of output from MDEs to students or institutions; and finally,
- inadequate provision for reporting services to institutions and students using only the Federal form.

A procurement such as this literally guarantees the negative effects recited earlier and is a step backward in our progress toward simplified, integrated, free processing of Federal eligibility. The undersupport of a Federal form that cannot deliver Pell and the Congressional Methodology effectively will ensure that over a million low-income students and families will continue to pay fees each year to obtain processing for Federal aid.

In all honesty, I feel I must temper my remarks by stating that the Committee earnestly believes this to be ED's position. Adequate responses to general recommendations or to specific Committee questions regarding such controls have not been provided. The Committee is caught between a responsibility to make specific recommendations on the MDE contracts--especially with regard to impacts of increases in MDE processors on students

and institutions--and a reluctance on ED's part to share information about the procurement. However, we feel that these issues are so fundamental that it is incumbent upon ED to share with the Congress, indeed the whole community, how it intends to prevent these undesirable effects from taking place.

For the record, the Committee in its letter to Secretary Bennett on August 4, 1988 and its August 24, briefing of Under Secretary Wright, sought specifically to head off such events. During the briefing we asked:

> Specifically, how will ED, through the MDE procurement, ensure that:
>
> - alternate forms will not proliferate when the MDE competition is opened up?
> - no MDE contractor charges any student directly or indirectly for processing Federal eligibility?
> - all students and families are aware that they now can apply free for all Federal student aid programs?
> - standard reporting to students and institutions is adequate?"

To date, the Committee has not received answers that lead us to believe that the necessary controls will be put in place.

Mr. Chairman, the Federal Government has a unique opportunity to play a leadership role by cutting through the complexity and confusion with a sound, simple, unified Federal delivery structure. States and institutions have expressed willingness to support the Congress and the Department in achieving widely held goals for student aid. This opportunity likely will be lost unless fundamental, straightforward issues are addressed immediately and the Department follows through administratively in conjunction with the student aid community. These issues include fees to students, standard output to students and institutions, and adequate support of the Federal form and its delivery.

We have submitted for the record the papers and reports that explain our recommendations in detail. I would like now to give the floor to Dr. Raymond Burse, President of Kentucky State University, for some additional remarks about what we must do in the short run to avoid these otherwise inevitable effects.

Mr. WILLIAMS. Mr. Fitzgerald, do we understand that you will be presenting testimony on behalf of the Advisory Committee or are these—are your remarks those of President Burse?

Mr. FITZGERALD. Mr. Chairman, I will be delivering President Burse's remarks this morning.

Mr. WILLIAMS. Please proceed.

STATEMENT OF BRIAN FITZGERALD ON BEHALF OF DR. RAYMOND BURSE, PRESIDENT, KENTUCKY STATE UNIVERSITY

Mr. FITZGERALD. Thank you, Mr. Chairman. Committee members, once again for allowing the Advisory Committee to testify on the critical matters before you today. Like Jim Craig and other Advisory Committee members, I embrace the goal that Congress has set for the system that delivers Federal student aid. I would like to assure all of you that the Committee members realize that a simplified and integrated delivery system cannot be achieved overnight. I, along with other Committee members and the Committee staff, am willing to work closely with the Congress, the community and the Department of Education on ways to improve the delivery system over the next few years.

However, as our Chairman, Jim Craig, has carefully specified for you today, there are steps we need to take immediately to ensure that the next three to five years do not undo much that has been accomplished over the last decade. The bottom line it seems to me is that we must at all costs find a way to prevent unnecessary proliferation of forms, processes, confusion and fees for students in general—but especially for low-income, disadvantaged and in particular minority students, all of whom the Congress has singled out for simplified need analysis and program eligibility. I find it incomprehensible and unacceptable that we would consider permitting a new MDE contractor to implement yet another form, legally charge students for its process by simply referring on its form to another form which is free. Adding insult to injury is my understanding that ED is prepared to allow new MDE's to send output to students, institutions and states that is incongruous with output from other MDE contractors. I think most would say that allowing this to occur is worse than a step backward for institutions and states. It constitutes an arbitrary, unnecessary and potentially dreadful heightening of the barriers to higher education for low-income students and is legally inconsistent with the Higher Ed Act and the underlying purpose of the Federal student aid programs. These barriers become increasingly critical for blacks and other minorities, who are not entering postsecondary education at the rates they did in the 1970s.

If the Department's answer to the Committee's concerns about impacts on students, institutions and states is not to worry, that these matters will be worked out in the RFP evaluation process, my response is that these are not the kind of issues that should be left to a contract evaluation panel of four or five individuals to decide. These are fundamental policy issues of considerable importance to all parties and to the entire structure of the aid delivery system.

Let me try to provide for you and other Subcommittee members the simplest way of conveying the Advisory Committee's position on the MDE issue to potential bidders.

Because of the expansion in the number of processors, and the need to avoid widespread confusion and disruption, in order to be an MDE processor and receive taxpayer dollars for determining Federal eligibility, any firm, agency or institution must be willing to implement a free, common form, process and output for Federal student aid programs. It is that simple.

We may also say to them, if you as an MDE processor want to collect additional data from students and charge them, or institutions or states, for the marginal cost of doing so, that is your right. However, do not expect to use the MDE structure to create and support your own form, charge students for what is supposed to be offered to students at no cost to them under the law, or add to the complexity of a process that everyone agrees is already too complex.

Let me also say that for many institutions and some states, the data and results from the Pell Family Contribution Schedule and the Congressional methodology along with very minor additions, are all that is needed to deliver most available aid to needy students. Jim Craig can expand on this point. Requiring every MDE processor to be a true, free Title IV processor thus offers a grand opportunity to integrate program delivery and eliminate fees for many students, most of whom cannot afford to pay the fee.

I would like to offer for the record today a letter that has been forwarded to the Advisory Committee by a member of the NASFAA National Council. This has been attached to the testimony. The letter is from a Louisiana financial aid administrator who cites the problems for low-income students associated with competing forms and fees. The Committee's recommendations would achieve something that this administrator pleads for, and I quote, "one form to be used by all students", to apply for aid without charge to students.

Mr. Chairman, members of the Subcommittee, make no mistake that there are those who oppose a common form. While their arguments usually are over forms design and supplementary data, the real issue is financial—that they want to maintain the current delivery structure, with its attendant fees. These groups find comfort with a Department of Education that does not trust the community, insists on maintaining a separate Federal form, but will not pay the bill for fully implementing the law in delivering Federal programs at no cost to students. The result is a deliberately undersupported Federal form that is incapable of delivering the Title IV programs at a large number of institutions and private processors who both charge students and receive funds as MDEs, but will not allow any students to file free for Federal aid without a charge, not even the poorest. This consistent undersupport of the Federal form and delivery process has resulted in forcing institutions to alternatives that cause students to be charged fees. It is an inherent Catch 22 in the current system. In 1987-1988, 1.2 million students with income of $15,000 or less—poor enough to use simplified need analysis—paid fees in order to have data sent to the Pell grant processor.

While I have my doubts about our ability to convince the Department to put in place the proper controls, a minor advantage in opening up the MDE competition may be, hopefully, that ED will receive bids from processors willing to implement exactly what is in the law free to students. However, they must see a Federal form that fully supports the use of the Family Contribution Schedule and the Congressional methodology, not a form whose content is arbitrarily restricted by ED and accordingly, doomed to fail.

To address this critical issue, I would like to respectfully request that the Subcommittee place this challenge before all parties involved in the delivery of Federal student aid. Say to them, if you really accept the rights of students outlined in the law, at least design your form in a way that allows interested students to apply for Federal aid at no cost to them, and you will be remunerated on a competitive basis by the Federal Government. If you are not free to do so, come forward and explain why in detail. And do not say it is a forms design issue because all that is required is a simple statement and color-coding or a box placed on an application.

And if there are other parties who believe that all of the hundreds of data elements and calculations in the Family Contribution Schedule and Congressional methodology are not enough to deliver Federal funds to the neediest students, let them come forward and also explain why. I think, Mr. Chairman, you and your committee members will be very interested in their responses.

In summary, Mr. Chairman, I would like to point out that all that is required to implement the law and the Committee's recommendations are four simple statements in the RFP:

All bidders must propose to use a single, common Federal form, or a separate Federal component.

All bidders must specifically show how students desiring to apply only for Federal aid programs can complete their form, or a particular portion of their form. The statement to students must be clear and prominent and associated Federal elements clearly designated.

All bidders must propose using standard reporting to students, institutions and states.

And lastly, all bidders must propose adequate and standard reporting to institutions who desire to use the Pell Family Contribution Schedule and Congressional methodology for delivering aid to students.

Mr. Chairman, if we prevail on ED over the next few weeks, we will have approximately a year to put these simple requirements into place. If we delay, we may well be having another session like this in the 21st century, still trying to find a way to implement what will have been in the law for almost two decades. I do not think any of us wants to be in that position.

To those who argue that the complex issues cannot be adequately dealt with in the time available, we must respond:

If we can accomplish nothing else, eliminate all fees through minor, but immediate, changes to forms; standardize output and support the Federal free form to the degree that it can adequately deliver Title IV programs at a full range of institutions. We also must immediately initiate outreach for junior high school students

in order to help low-income students with access to higher education. These will be major accomplishments.

Thank you for the opportunity to testify on these important matters before your Subcommittee.

[The prepared statement of Dr. Raymond M. Burse follows:]

TESTIMONY BY

DR. RAYMOND M. BURSE, PRESIDENT

KENTUCKY STATE UNIVERSITY

BEFORE THE

HOUSE SUBCOMMITTEE ON POSTSECONDARY EDUCATION

AT THE

UNIVERSITY OF MONTANA

MISSOULA, MONTANA

SEPTEMBER 24, 1988

Thank you, Mr. Chairman and Committee members, once again for allowing the Advisory Committee to testify on the critical matters before you today. Like Jim Craig and other Advisory Committee members, I embrace the goals that Congress has for the system that delivers Federal student aid. I would like to assure you that all of the Committee members realize that a common form and an integrated delivery system cannot be achieved overnight. I, along with other Committee members and the Committee staff, am willing to work closely with the Congress, the community and the Department of Education on ways to improve the delivery system over the next few years.

However, as our Chairman, Jim Craig, has carefully specified for you today, there are steps we need to take immediately to ensure that the next three to five years do not undo much that has been accomplished over the last decade. The bottom line it seems to me is that we must at all costs find a way to prevent unnecessary proliferation of forms, processes, confusion and fees for students in general--but especially for low-income and disadvantaged, and particularly minority students, all of whom the Congress itself has singled out for simplified need analysis and program eligibility. I find it incomprehensible and unacceptable that we would consider permitting a new MDE contractor to implement yet another form and legally charge students for its process by simply referring on this form to another form which is free. Adding insult to injury is my understanding that ED is prepared to allow new MDEs to send output to the student, institutions and states that is incongruous with output from other MDE contractors. I think most would say that allowing this to occur is worse than a step backward for institutions and states. It constitutes an arbitrary, unnecessary and potentially dreadful heightening of the barriers to higher education for low-income students and is legally inconsistent with the law and underlying purpose of the Federal student aid programs. These barriers become increasingly critical for blacks, who are not entering postsecondary education at the rates they did in the 1970s.

If ED's answer to the Committee's concerns about impacts on students, institutions, and states is not to worry--that these matters will be worked out in the RFP evaluation process--my response is that these are not the kind of issues that should be left to a contract evaluation panel of five or so individuals to decide. These are fundamental policy issues of considerable importance to all parties and to the entire structure of student aid delivery.

Let me try to provide for you and other subcommittee members the simplest way of conveying the Advisory Committee's position on the MDE issue to potential bidders:

> Because of expansion in the number of processors, and the need to avoid widespread confusion and disruption, in order to be an MDE and receive taxpayer dollars for processing

Federal eligibility, any firm, agency or institution must be willing to implement a free, common form, process and output for the Federal student aid programs.

It's that simple!

If you as an MDE processor also want to collect additional information and charge students, institutions or states for the marginal cost of doing so, that is your right. However, don't expect to use the MDE structure to:

- create and support your own form;
- charge students for what is supposed to be offered to students at no costs to them under the law; or
- add to the complexity of a process that everyone agrees is already too complex.

Let me also say that for many institutions and some states, the data and results from the Pell Family Contribution Schedule and the Congressional Methodology, with very minor additions, are all that is needed to deliver to deliver most all available aid to needy students. Jim Craig can expand on this point. Requiring every MDE to be a true, free Title IV processor thus offers a grand opportunity to integrate program delivery and eliminate fees for many students, most of whom cannot afford to pay the fee.

I would like to offer for the record a letter forwarded to the Advisory Committee by a member of the NASFAA National Council. The letter from a Louisiana financial aid administrator cites the problems for low-income students associated with competing forms and fees charged to students. The Committee's recommendations would achieve something that this aid administrator pleads for: "one form to be used by all students" to apply for aid without charge to students.

Mr. Chairman, members of the subcommittee, make no mistake there are those who oppose a free, common form. While their arguments are usually over forms design and supplementary data, the real issue is financial--that they want to maintain the current delivery structure, with its attendant fees. These groups find comfort with a Department of Education that does not trust the community, insists on maintaining a separate Federal form, but will not pay the bill for fully implementing the law in delivering Federal programs free. The result is a deliberately undersupported Federal form that is incapable of deliverying the Title IV programs at a large number of institutions and private processors who both charge students and receive funds as MDEs--but who will not allow any students to file for Federal aid without a charge, not even the poorest. This consistent

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undersupport of the Federal form and delivery process has resulted in forcing institutions to alternatives that cause students to be charged fees. This is an inherent "Catch 22" in the current system. In 1987-88, 1.2 million students with income $15,000 or less--poor enough to use simplified need analysis--paid fees in order to have their application forwarded to the Federal processor to receive a Pell Grant.

While I have my doubts about our ability to convince ED to put the proper controls in place, a major advantage in opening up the MDE competition may be that, hopefully, ED will receive bids from processors willing to implement exactly what is in the law free to students. However, they must see a Federal form that fully supports the use of the Pell Family Contribution Schedule and Congressional Methodology--not a form whose content is arbitrarily restricted by ED and accordingly doomed to fail.

To address this very critical issue, I would like to respectfully request the your Subcommittee place this challenge before all parties involved in the delivery of Federal student aid. Say to them:

> If you really accept the rights of students outlined in the law, at least design your form in a way that allows interested students to apply for Federal aid at no cost to them--and you will be remunerated on a competitive basis by the Federal Government. If you are not willing to do so, come forward and explain why in detail. And don't say it's a form design issue because all that is required is a simple statement and color-coding or a box placed on an application.

And if there are other parties who believe that all of the hundreds of data elements and calculations in the Pell Family Contribution Schedule and Congressional Methodology are not enough to deliver Federal funds to the neediest students, let them come forward also and explain why in detail. I think, Mr. Chairman, you and your Committee members will be very interested in the responses.

In summary, Mr. Chairman, I would like to point out that all that is required to implement the law and the Committee's recommendations are four simple statements in the RFP:

- All bidders must propose use of a single, common Federal form--or separate Federal component.
- All bidders must show specifically how students desiring to apply only for Federal student aid programs can complete their form--or a particular portion of

their form--free. The statement to students must be clear and prominent and associated Federal elements be clearly designated.

- All bidders must propose using standard reporting to students, institutions and states.

- All bidders must propose adequate, standard reporting and services to institutions who desire to use Pell and/or the Congressional Methodology for delivering aid to students.

Mr. Chairman, if we prevail on ED over the next few weeks, we have approximately one year to put these simple requirements into place. If we delay, we may be having another session like this in the 21st century--still trying to find a way to implement what will have been in the law for almost two decades. I don't think any of us want to be in that position.

To those who will argue that the complex issues cannot be adequately dealt with in the time available, we must respond: If we can accomplish nothing else, eliminate all fees through minor--but immediate--changes to forms; standardize output and support the "free Federal form" to the degree that it can adequately deliver Title IV aid at a full range of institutions. These will be major accomplishments.

Thank you for the opportunity to testify on these important matters.

NORTHWESTERN
STATE UNIVERSITY OF LOUISIANA
Natchitoches, Louisiana 71497

Student Financial Aid Office
Telephone (318) 357-3981

April 12, 1985

Dr. Dallas Martin
Executive Director
National Association of Student
Financial Aid Administrators
Suite 100
1776 Massachusetts Avenue, NW
Washington, D.C. 20036

Dear Dr. Martin:

Many confusing issues are facing financial aid personnel at the present time. As you know, we are constantly concerned with validation, reauthorization, family contribution schedules, budgets, etc. However, I believe that we should look at another financial aid issue that must be addressed and resolved in the near future. This issue involves the question of the financial aid application process--Which form do I complete in order to apply for federal financial aid?

Northwestern State University has traditionally used the ACT Family Financial Statement up until the 1984-85 academic year. At that time, we decided to use only the Application for Federal Student Aid for students to apply for federal student aid. This change was made because many students from rural Louisiana could not afford the $6 processing fee, and these students found the Federal Application to be easier to complete than the ACT Application. Also neighboring institutions (Louisiana Tech and Northeast Louisiana) were using the Federal form, and we are constantly in competition with these institutions for students.

I am aware that some states require the ACT or CSS form in order for students to apply for state aid, however I feel that all students attending postsecondary institutions should use the same form. A possible compromise between ACT and CSS might be to allow each processor to contract to process this one form for a two or three year period. All agencies involved (NASFAA, Dept. of Education, CSS, and ACT) could sit down together and develop one form to be used for all students applying for financial student aid.

This problem may not appear to be a big problem to you, but I think that it is a big problem in the South, espcically in rural Louisiana. Many of the universities in Louisiana use different forms:

Northwestern, Northeast, La. Tech - Federal Appliation only
McNeese, Southwestern - ACT Form
Tulane, Grambling - CSS Form

The high school counselor is not sure which form a student needs to complete in order to attend a certain college or university.

I look to NASFAA for help in this issue, because I am aware of what NASFAA is doing in Washington. You and your staff are greatly appreciated by all financial aid administrators. It is a good feeling to come to work every day to "fight the battles" and know that you have an organization such as NASFAA looking after the needs of college students who must have federal aid dollars in order to continue to pursue a college education. I am aware that your schedule is very busy, but I do hope that you and your staff will study the problem and make some suggestions that will benefit the student.

Your attention in this matter will be greatly appreciated.

Sincerely,

Terry L. Faust, Director
Student Financial Aid Office

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Mr. WILLIAMS. Thank you, Mr. Fitzgerald, we appreciate your work as the Staff Director of the Advisory Committee and also appreciate your delivering the testimony of Dr. Burse, President of Kentucky State University.

Mr. Jeffords, questions or comments?

Mr. JEFFORDS. Yes, I do.

Would you give us an idea what kind of fees you are talking about, a range of what is being charged? Do you know what kind of fees are being charged?

Mr. CRAIG. Approximately—it depends upon which MDE processor you use. Outside the free Federal form, the fee will run between seven and eight dollars for the initial application. Unfortunately, if a student makes a mistake on that application and reports data that is not correct, then the fee will be—I am just guessing—in the vicinity of four dollars for a correction. So it is going to cost the student initially at least seven dollars to apply and then it could cost them additional dollars if they use the MDE's processing for correction.

Mr. JEFFORDS. So—well if you make——

Mr. CRAIG. That is per year.

Mr. JEFFORDS. Per year and per mistake.

Mr. CRAIG. Yes, per mistake. If a student completes an MDE document incorrectly, the data is sent back to the student for review. If they find that an item is incorrect, they can correct the MDE document, send it back through the system, but they have to pay a fee for each correction.

Mr. JEFFORDS. Now under your system, would that be true if that mistake is in the free Federal form?

Mr. CRAIG. No. It could be sent back any number of times for correction without charge to the student.

Mr. JEFFORDS. Now assuming the college or institution or whatever, wants to make the student aware of other scholarships and aid, then the form has more information and there can be a fee. Now what would you recommend or how would you control the size of that additional fee such that it is a reasonable one and so that if the application is made, you know that they are not making bucks on the side. If you need just that piece of additional information, you would not need much cost at all?

Mr. CRAIG. That is a difficult question to answer because at the present time, the MDE forms from the two major processors contain different questions, which are really generated by the financial aid community as to what they feel they need in the form of data to process institutional or private assistance. For many of the institutions, however, the Federal questions would be all that would be necessary for them to deliver the majority of their aid.

I think if you had a number of MDE contractors out there with additional sections for institutional aid, I think perhaps the competitiveness of the system would keep the number of questions down and additional cost to the free form. But you are going to find for a large number of students and for a large number of institutions, that the basic Federal questions if we have a free, common form, is all that is necessary for those students to receive Federal aid.

Mr. JEFFORDS. Well, what I want to know is, how you make sure that the Federal form is really free?

Mr. CRAIG. It is mandated by Congress and it is going to be free.

Mr. JEFFORDS. That is, but if they charge—they say the Federal part is free, but we need ten dollars to process the rest of the information, what control in your area.

Mr. CRAIG. Well I think that if you have an MDE processor, that you would have a separate section that would be specifically identified that they are applying for Federal aid free, and that all they have to do is fill out that section and it would be clearly understood that they would not have to complete any additional section of an MDE document in order to receive aid under the Federal aid programs. Only if they wanted to apply for institutional aid would they be required to fill out the rest of the document.

Mr. JEFFORDS. And send the fee.

Mr. CRAIG. And send the fee. But it would have to be clearly understood that if they fill out Section A of a multi-part MDE document, that Section A is all that is required for them to receive assistance under Federal aid programs.

Mr. JEFFORDS. I would like to toss you a softball question, you are going to have some people after you who are going to disagree somewhat with what you are saying.

Mr. CRAIG. That is correct.

Mr. JEFFORDS. I imagine you have seen some of their criticisms and I wonder if at this time you would like to respond, either now or Mr. Chairman, maybe you want to get it in writing.

Mr. WILLIAMS. We will do it any way you like, Jim.

Mr. JEFFORDS. Well perhaps you will give us a brief idea of any that you feel deserve special critiquing at this point, say in terms of the ACT letters and others.

Mr. CRAIG. May I ask Brian to respond to that a little bit.

Mr. FITZGERALD. Sure.

Mr. Chairman, Mr. Jeffords, for your information, the Committee has prepared—I was trying to find a xerox machine earlier so I could provide copies to you—they have been delivered to your offices, it is a full and detailed response to the ACT letter. I think we have tried in effect to address some of those issues in our testimony today. I could review some of them very quickly for you.

For example, the ACT letter suggests that we have recommended sweeping changes. I think we strongly disagree with that. We see that immediately some potentially minor changes must occur. There is no question that the delivery system could withstand a good, thorough examination and revision, but those are longer term issues. We have recommended a core set of changes that could be implemented in the next round of RFP.

We do not believe that it Federalizes the delivery system.

Well I think it is probably best to just leave it to the letter to speak for itself, if you do not mind.

Mr. JEFFORDS. Thank you, Mr. Chairman.

Mr. WILLIAMS. Mr. Martinez.

Mr. MARTINEZ. Yes, thank you, Mr. Williams—or I should say, Mr. Chairman.

Incidentally, I like your testimony, both of you, because you think much like I do. But I am going to play the devil's advocate.

I'm going to say look, if I set up a business—and I was in business once myself and I understand the great free enterprise system and I am looking for a way to make money.

I set up a business. I am going to process this form and analyze it and spit out the information as the law said, this student is eligible and this is how much he is eligible for. So I have done the work that maybe ought to be done by the institution since the institution is going to finally say to the lending institution, "give the student this much money according to what this processor says he is eligible for." But there is a lot of work done there. And if I am going to do it, I have got to be covered for it somehow. I cannot just do it for free. I have got to either be paid by the Government; the student; the institution; or it has got to be included in his loan fee some way. What I am saying is I cannot do it free.

Now if the institution has the capability of doing it, I do not see why they are not doing it themselves and eliminating the middleman, putting me out of business. Now, I am broken hearted, especially if I am making good money at it.

How do we get around that?

Mr. CRAIG. Right now—of course, Congress is going to have to answer that question, but Congress has put in the law that there will be a free common form—or that a student can apply for Federal aid free. We know that nothing is free, somebody has to pay for it. If Congress has, and declares their intention that a student should be able to apply for Federal aid free without cost to the applicant, then I feel that the Advisory Committee is certainly supporting that.

But by the same token, the methodology, the delivery system—they have developed a very complex delivery system which requires under the present regulation that you have complex—a computer system to make this evaluation and schools out of necessity have gone with processors because of the fact that really the Federal system is deficient in determining and delivering the information to the schools that they need to have to deliver aid to the student.

Mr. MARTINEZ. Then I assume from what you are saying that if we are going to have a standardized form—and, incidentally, I agree with that. Why should there be a thousand different forms just because there are a thousand different processors. That is ridiculous. I think that if the Congress is mandating this program, they ought to be able to mandate this is the form that they use. If you want to come on board, as you suggested in one of your testimony, you want to do this processing and derive a monetary benefit from it, then you ought to be willing to accept the form that is provided, even if in developing that form you tell us what your hardware system has to provide. Now it is up to the contractors to go out and get the software for their computers and everything else that meet and match the requirement of that form. I have no problem with that.

The thing is that sometimes in Congress, in having good intentions, does not think far enough in advance exactly what is going to happen, and what has happened here, where somebody has to pick up the cost of the operation if it is going to continue. Even if the colleges do it, I imagine there would be some cost to them and

somebody would have to pay for it. It has got to be absorbed somewhere.

Mr. CRAIG. That is right.

Mr. MARTINEZ. I think that what I really need to know so that I can get it clear in my mind—because it does not seem like a heck of a lot of money, three dollars. However, that three dollars can be multiplied by the fact that a student, not knowing where he is going to be accepted, may need to provide that information to more than one college. That seven dollars that you estimated could actually go up to—let us say if he applied seven dollars to seven colleges, that is $49.00. So it could get up there, since most students today apply several different places because they do not know where they are going to be accepted. It gets to be some money, especially for that disadvantaged, low-income student, the ones we are trying to serve.

Have you and the Committee had any idea as far as a recommendation where that cost should be absorbed?

Mr. FITZGERALD. Yes, Mr. Martinez, we have. I think to be absolutely clear about the current structure, and the gentlemen who will follow us I am sure will tell you, that the MDEs technically do not charge for Federal—specifically for Federal processing at this point. They are reimbursed by the Federal Government, by the Department of Education, for that processing. However, there is a fee associated with the form, one must pay the fee before the form can be accepted. And that is a distinction that is important.

We have recommended that in several different ways, the Department fully implement the law and support a Federal delivery system that would deliver the Title IV programs. In fact—I think for example, in the ACT letter, there was a reference to reimbursing it at 91 cents an application, the MDE processors. I do not think we envisioned that. I think the recommendation that we made to the Secretary and put into our report was that writing Congressional methodology into the law suggests that we need really a full Title IV-wide delivery system; separation of Pell and the other programs no longer makes sense. The MDE procurement is a very good way to begin integrating those.

The creation of full service MDEs could mean higher reimbursements for the MDE processors as more services are built in. For example, the current Pell processor does not consistently report to institutions. That is a key aspect of a delivery system and we recommended that those sorts of services be contained in the MDE RFP and that the Department of Education pay for it. However, we are also recommending the elimination of certain functions from the current Pell processor contract that are in fact redundant.

So while I do not think we would say that it is exactly a wash in terms of cost, there can be some cost savings that are achieved through effectively eliminating portions of the current Pell processing contract, and the funds could then be used to support the MDE contracts as Title IV-wide delivery contracts.

Mr. MARTINEZ. That sounds reasonable. Do you have anything, Mr. Craig?

Mr. CRAIG. Yes, I fully support that concept. Like Brian has mentioned, in the ACT letter, they refer to the 91 cents. I reiterate that the Committee had never made a recommendation that the MDE

processor would receive 91 cents, that they would become more of a full-service processor and that the monies being spent now on the Pell processor, which as Mr. Fitzgerald has indicated, is redundant, those cost savings could be passed on to the MDE processor. I would like to say overall when you consider the billions of dollars that is going to students in the form of Federal aid, and I think the importance of that Federal aid to the nation as a whole, getting students educated, that the amount of dollars that the Federal Government is spending in seeing that that aid is delivered is really minute in comparison to the overall program. And I really feel that as long as institutions in the United States are concerned about the seven dollar cost, that we should do everything possible to eliminate that cost. If that cost acts as a barrier to disadvantaged and minority students from continuing their education, whether it be at an institution of higher education, a community college, a tech school, a proprietary school—then I think we as a committee and the Government and the Department of Education should do everything possible to eliminate that barrier as long as people see that as a barrier. And there are a number of schools and a number of people that see that as a barrier.

Mr. MARTINEZ. I agree with you. To some of us, you know, who are maybe in a little more affluent situations, three dollars and seven dollars and forty nine dollars does not seem like a lot.

Mr. CRAIG. That is right.

Mr. MARTINEZ. But I know, because I represent people in my district like that. Many times that three dollars makes a big difference in a family budget where the people are struggling, especially today when in certain areas of our country, certain pockets of the economy in our country today are desperate, almost depression-like situations. We choose to ignore that because the statistics that we see indicate that we are on a great economic recovery and maybe we are for certain parts of the country, but others are not. I can take you in my district and show you those areas. Those people are trying to get an education the best way they can because they know that is their only chance for upward mobility.

Mr. CRAIG. That is right.

Mr. MARTINEZ. I agree with you. Thank you.

Mr. WILLIAMS. Mr. Swift.

Mr. SWIFT. Thank you, Mr. Chairman. Mr. Craig, you said and I believe Mr. Fitzgerald echoed it—I think I quote it correctly—you referred to the Department of Education's continued conscious undersupport of this program. Could you expand on that a little bit?

Mr. CRAIG. Well let me answer that in this manner. For a number of years we had "a Federal application" that was free to the student, but because of the inadequacies of that application, most institutions have been forced, directly or indirectly, to use one of the cost MDE processors. And this is in an area such as the information that they put out. What you get from the free Federal form is basic data. It gives you a family contribution and basically that is it. That is really not enough for an institution to properly package assistance in accordance with Federal guidelines. I would draw your attention to maybe three areas.

It had inadequate data in the form of family contribution because the law now requires that the family contribution will

change based upon whether the student goes more than nine months or goes to school less than nine months, which requires recalculation. If you do not have that data on the Federal form, then the school either has to recalculate that data or put it through a computer to gather that data, whereas the MDE processors provide that on their form.

Enrollment status, the MDE processes, the one that you pay for, tell you the enrollment status. Is the student going half time, three quarter time—students attending less than half time are not eligible for GSLs, if they are less than a quarter time they are not going to be eligible for Pells and yet on the Federal form you do not get that data. So a school has to gather that data in another manner and right now they gather it through the MDE processor.

Veterans' benefits, the way the law reads right now, in certain cases only a portion of a veteran's benefits is considered as part of, quote, "the family contribution". Under the Federal form, you do not get that data. The MDE processing form, you get that data.

Mr. SWIFT. So you are saying that in a number of different respects——

Mr. CRAIG. Right.

Mr. SWIFT [continuing]. The Federal form is inadequate.

Mr. CRAIG. The Federal form is inadequate. In my own estimation, if the Department of Education had been truly concerned about implementing a free Federal form, that they would have addressed those issues and kept the Federal form up to date as changes in the law occurred, so that a school getting the Federal form would have had all the data necessary to properly package that and the institutions could have then said we can use the Federal form, we do not have to use one of the MDE processors.

Mr. SWIFT. What you mean by the phrase "undersupport", you are not talking about financial resources or staffing of the program by the Department of Education?

Mr. CRAIG. Not in my estimation, no. It is a fact that they have really not devoted any energy or time to making the Federal——

Mr. SWIFT. Undersupport means that they are almost consciously refusing to do anything that might put them in competition with the private sector contractors.

Mr. CRAIG. That is right. And their reporting also. I did have that down here—the reporting of the information to the schools, if you use their—you either get their information in the free form piece of paper, which to make it work you would have to put it into a data base, you can get free tapes but they only give you about nine or twelve a year, which come about once a month, which is really not adequate.

Mr. SWIFT. So in short, what they do is they make their alternative essentially inadequate so that no one wants to use it.

Mr. CRAIG. That is right.

Mr. SWIFT. And one might think that possibly there might be an ideological motivation behind that. I said that, I do not know whether you would care to say that.

I yield to Marty.

Mr. MARTINEZ. I thank the gentleman for yielding on that point. It is very important because there is language that does require free form be used, but in that language it also allows for additional

information to be charged for. That takes away the very thrust that you are trying to provide: free application to that disadvantaged student.

In that regard, what Mr. Swift said and what you have just remarked on is really important. The form that the Government provides and standardizes for all the MDEs to use, I think has to provide all of the information that is necessary so that there can truly be a free form.

Mr. CRAIG. That is correct.

Mr. SWIFT. But you also said that the Department of Education was reluctant to share information with your Committee.

Mr. CRAIG. May I refer that one to Mr. Fitzgerald?

Mr. SWIFT. Surely. Do you think you are getting stiff-armed?

Mr. FITZGERALD. I will address my remarks to behavior rather than intention, but——

Mr. SWIFT. That is all right, I can draw conclusions.

Mr. FITZGERALD. They are in a procurement process and are very sensitive about releasing information to any parties that could in fact result in a protest, a formal action under the contracting procedure. I should say, however, that it has made our job that much more difficult because of the restriction on information.

Mr. SWIFT. One last question. Do you feel that some of the contractors are misleading or otherwise taking advantage of applicants by not letting them fully understand what their options are?

Mr. CRAIG. No, I would not say that. I think the present MDE processors have done an excellent job in delivering Federal aid to students, and without them we would have had a very difficult time delivering that Federal aid to students because we would not have had adequate information or an adequate process.

I might say also that one of the reasons that most schools use one of the MDE processors, which we do, is because of the unreliability of the Federal form. This past year, it was on time, the Federal documents were out in time, but in some years the delivery of the application was late, the delivery of the output was late and if schools had to rely on that, we may not have gotten information to students until school had been in session three months in September. So it is the unreliability——

Mr. SWIFT. Of the Federal——

Mr. CRAIG [continuing]. Of the Federal form, and the MDE processors have filled the void that was there.

Mr. SWIFT. Well if you would clarify something for me. You are saying that—are you then saying that it is necessary to change the law or the regulations in order to make it clearer to the users of these forms that there are free alternatives available? You were saying all you need is a simple checkmark or something, a color code and so forth. Does the criticism go to the regulation or does the criticism go to the contractors for not doing this?

Mr. CRAIG. What we are suggesting is a change in the system where we do not have a free Federal form, that the MDE processors deliver the financial aid, but that the MDE document have a separate section, be it Section A, that is the Federal questions necessary to determine Federal aid. And at that point the students know specifically that if all they want is Federal aid, they can stop right then and there. And for many of the institutions around the

country, they would tell our students "you can stop right then and there, it is not going to cost you anything".

Mr. SWIFT. Okay, so you are saying that you have given up on the Department of Education ever being able to make its section of this thing work properly, so you are throwing the towel in and saying we will go completely to contractors with a special section, and just forget the Department of Education and its stiff-arming.

Mr. CRAIG. What basically we are——

Mr. SWIFT. I do not mean to put words in your mouth.

Mr. CRAIG. What we are suggesting is the system we have now is redundant, it is confusing and students are really probably filling out too many documents. They fill out anything that is set in front of them because they want financial aid. And what we are suggesting is clean up the system, simplify it by doing away with the Federal form and on the procurement process, making the Federal—if you want to call it a Federal form—part of the MDE process, so that we are processing not only for Title IV but for Pell Grant, with one document, and that we would tie in the institutional aid and the state aid as separate sections of that document.

Mr. SWIFT. Thank you very much.

Mr. WILLIAMS. Mr. Durbin.

Mr. DURBIN. Thank you, Mr. Chairman, I have three questions and I will try to make them brief.

First, can you give me some kind of perspective, how many forms are processed each year?

Mr. CRAIG. Oh, boy——

Mr. FITZGERALD. Probably around ten million.

Mr. DURBIN. Ten million forms and divided among how many different processors?

Mr. CRAIG. Well right now, there are four MDE processors and Congress has suggested a fifth. I would guess that College Scholarship Service processes the largest number. I would guess then ACT processes the second largest number and then the rest are split between Illinois and the Pennsylvania form and the free form.

Mr. DURBIN. Mr. Craig, you stated at one point that the MDE processors have done an excellent job. Your Advisory Committee summary contains the following language, "The current system is deficient in that the forms are numerous and expensive . . ." and I will not go on, but it goes on to say that the processes are redundant and the like. I do not know that those two statements are inconsistent, appraising the processors on one hand and drawing those conclusions on the other. But could I ask you to direct your testimony to one particular question; how did the Advisory Committee come to the conclusion that the present system is expensive?

Mr. CRAIG. To the student or to the——

Mr. DURBIN. Your words, I do not know.

Mr. CRAIG. Well first of all, it is expensive to the student over the long haul. As we have indicated, you have got several hundred thousand students out there that are below a certain income level and each year they are going to pay a fee under the present system for somebody to tell them you are still qualified fully. If a single parent is on ADC, you do not need to keep having her pay seven bucks a year to find out that she is poor. I think the system on a

national scope is expensive because the Federal Government is now paying like a centralized processor to process a central Pell form that is redundant, that somebody has already paid for, the student has really paid for that when they have gone through the MDE processor.

Mr. DURBIN. Did your Advisory Committee take a look at the expense of this process from the perspective of the processor? In other words, did you find any other form that is processed by companies of this size in this volume and the charges being made, and compare them to this process and conclude then that in this process the charges being made were too expensive?

Mr. CRAIG. Could I ask Mr. Fitzgerald to answer that?

Mr. FITZGERALD. I think, Mr. Durbin, one does not need to look too far beyond the MDEs to get a sense of the cost structure to students, for example. Two of the MDEs do not charge, Pennsylvania and Illinois do not charge students and in fact receive funds directly from the Federal Government to reimburse them—this is speaking from the student perspective. For example, Illinois primarily uses the Federal form and processes very little other data. Pennsylvania processes at no cost to the student by basically underwriting the state data. So one can examine the cost of processing to students simply by looking at the four MDEs.

I must say cost information was not easy to come by in this. The Department, although we requested cost data, apparently had not done cost/benefit analysis for example to support picking a number of MDEs or a structure for the MDE process. And so we had, I would say, less than adequate cost information from that perspective.

Mr. DURBIN. So if I can just draw the conclusion, when you use the word "expensive", it is not only from the student's perspective of the redundancy and the fact that some students have limited means, but also despite the information on cost/benefit, you have at least found two instances where states are coming up with the necessary information without a charge.

Mr. CRAIG. Also if I might add, it is expensive to the institution as well, because the institution can receive this data in paper format, but in this day and age, paper format does not allow you to process in a timely enough manner to inform students if they are going to receive aid by the time they enroll in school.

If we want to use—and for example, the Department of Education has an electronic transmission process that schools can use except by the time you figure out what it is going to cost the school, for us as an institution, and you multiply this by the number of institutions, would cost our institution alone $3600 a year just to get information from the Pell process electronically.

Also, if you use the electronic processing of the other services, you pay for it. You have five or six different MDE processors out there charging the school for sending you that data. You can see how the charges to the school will mount up, and if the school has to pay for that, they are going to have to get the money from somewhere, directly or indirectly either from the applicant or through the taxpayers.

Mr. DURBIN. Thank you. Thanks, Mr. Chairman.

Mr. WILLIAMS. Thank you.

Jim, let me ask you to take your Chairman's hat off and put on your financial aid administrator hat, you work closely with the students at Montana State University. Are the complexities on these forms, the questions asked, the information gleaned about the individual student helpful to most of your students from the standpoint of either delivering the aid to them more efficiently or selecting out the aid for which they are eligible more quickly?

Mr. CRAIG. I think the questions are confusing to many, many parents. We get responses from parents that they do not understand how to fill out the form. If the student is coming from a well-educated family that can hire an accountant, there is probably no difficulty in filling out the form.

Mr. WILLIAMS. Do you know students who hire accountants to do this?

Mr. CRAIG. Oh, yes, there are students that pay a fee anywhere from $100 to $300 to practitioners to help fill out the form. I just think that when a form becomes so complicated and the questions become so complex that you cannot understand it and you have to go to somebody to help you fill it out and pay a fee for it, then I think it is time to take a look at the entire system, especially when we are talking about low-income students. And also the complexity of needs analysis, you cannot explain it to a family. If they ask you where do you come up with this family contribution, you really revert back to well it is the law and that is the way the system works and that is what you are expected to contribute. But if you want to get into a detailed explanation, you know, I have a hard time understanding it and trying to explain it to somebody else, it is just the complexity of the entire system.

Mr. WILLIAMS. Is the complexity of the application worth it to the student?

Mr. CRAIG. It is worth it now, if they want to go to school and they need money to go to school, they have to get through that system somehow. Now how many students that presents a barrier and when they get to that application, they just say "I give up, I am not going to go to school", we have no way of knowing.

Mr. WILLIAMS. Do you think it is that great a deterrent to some students, that they simply will not fill it out?

Mr. CRAIG. I do not think it is that great a deterrent to students maybe attending schools in Montana, but I think in other states it is a deterrent. We have been told it is a deterrent. Dr. Burse has told us that it is a deterrent to students from his area.

Mr. WILLIAMS. Well the other members of our Committee have asked other questions I had on my mind, so that completes our round of questioning for this panel. We appreciate your recommendations to us and we are particularly appreciative to both of you for your long hours, hard work and results on the Advisory Committee. Thanks very much.

Mr. CRAIG. Thank you.

Mr. FITZGERALD. Thank you, Mr. Chairman.

Mr. WILLIAMS. I ask the two members of the Panel Number 2, Mr. Daniel Lau and Mr. Dallas Martin, to come forward.

Mr. Lau is the Director of Student Financial Assistance here representing the United States Department of Education. Glad to see you here today, Mr. Lau.

Mr. LAU. Thank you.

Mr. WILLIAMS. Dallas Martin is the President of and here representing the National Association of Student Financial Aid Administrators. Dallas, it is nice to see you again as always.

Mr. Lau, please proceed.

STATEMENTS OF DANIEL LAU, DIRECTOR OF STUDENT FINANCIAL ASSISTANCE, OFFICE OF POSTSECONDARY EDUCATION, REPRESENTING THE U.S. DEPARTMENT OF EDUCATION, AND DALLAS MARTIN, PRESIDENT, NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Mr. LAU. Mr. Chairman, I am pleased to be with you and the other Subcommittee members today. Dr. Dewey Newman, who is the Deputy Assistant Secretary for Student Financial Assistance asked that I express his regrets that he could not be here today. With our new Secretary coming on board, he needed to be in Washington, but he wanted you to know that he is especially sorry because Montana is one of his favorite places.

Mr. JEFFORDS. Well that does not help with me. [Laughter.]

Mr. WILLIAMS. But it does with the Chairman.

Mr. LAU. I am sure he likes Vermont as well. [Laughter.]

Mr. MARTINEZ. How about California?

Mr. LAU. That is a favorite too. [Laughter.]

Mr. WILLIAMS. It is close to election, is it not?

Mr. LAU. I appreciate the opportunity to respond to the recommendations of the Advisory Committee. I shall briefly address the Committee's recommendations and the Department's plans for implementing improvements to the Federal financial aid delivery system.

First, the Committee recommends transforming the current Pell MDE contracts into Title IV contracts—vehicles that support the delivery of all Federal student aid programs.

Both the MDE agency applications and the direct Federal—as we refer to it, the AFSA—application have always been, and will continue to be, used for determining eligibility for Pell Grants and for the campus-based Federal programs. The Department and the MDE agencies have also taken steps toward fuller integration with the Stafford Loan program. Our objective is to allow the student to apply for all Title IV programs through the use of one application—either the direct Federal application or an MDE agency application.

While the Department strongly supports the goals of simplifying and integrating the application and delivery systems of the Title IV programs, we do not believe that maintaining the availability of the direct Federal application to students and schools contributes to fragmenting the system from the perspective of the student. Schools which do not want or need to use the more lengthy MDE forms, for purposes of non-Federal aid, should not be forced to use them. Moreover, the cost of providing the Federal form is very moderate and its availability promotes competition and cost control.

One of our primary objectives in our effort to improve the Title IV delivery system is to further integrate the MDE agencies into

the process. The Department has been pursuing this objective for several years. Currently, MDE agencies are permitted to perform the entire array of need analysis and editing procedures required to determine the eligibility of students for all Title IV aid programs.

As part of the Department's procurement planning, we intend to issue awards in 1989 for the 1990–1991 processing cycle. These contracts will provide for the MDE agencies to collect a student's financial and other data and immediately transmit that data electronically to the Federal processor. The student's Title IV eligibility calculations as well as edits and other data base matches will be performed by the Federal processor and returned by electronic transmission to the appropriate MDE agency. The MDE agency will then generate and forward an eligibility report to the student. We believe that this will result, for the first time, in an application process that will appear as a single process, since students will only have to deal with one organization to have their eligibility determined for any Title IV aid program rather than, as in the past, having to rely on a central processor for the Pell Grant Student Aid Index and an MDE agency for the calculation of the Family Contribution.

Secondly, the Committee recommends that the Department require all MDE contractors to implement a standard, free common form for Federal programs through a specific participation criteria.

The Department supports this general objective as well as the Committee's recommendation that the MDE applications separate the Federal core data elements from the supplemental data elements which are used for non-Federal program purposes.

While it is unlikely that the Department can implement this recommendation for the 1990–1991 award year, we intend to implement it as soon as possible. I should note that the new MDE contracts will become operational in the 1990–1991 award year, not the 1989–1990 academic year as indicated in the Committee's letter.

While we agree that the MDE agency application forms should be provided without charge to students, we do not agree that dropping the direct Federal application—which has always been made available without charge—would serve Congressional intent in this area.

We would also like to emphasize that we do not plan to allow the provision of MDE forms at no charge to students to result in any increase in cost to the Federal Government. Federal payments to the MDE agencies already reflect the costs of collecting and processing data related to the Federal student aid programs. The Federal taxpayer should not be expected to assume the costs of collecting and processing data which are not needed for determining Federal aid eligibility.

The Committee recommends that the Department redesign the services required under the contracts to include adequate and timely reporting by MDEs to students and institutions, including an eligibility report and early diagnostic eligibility services for junior high students with particular emphasis on low-income students, in order to provide greater access to postsecondary education.

The Department concurs with this recommendation that MDEs must provide adequate and timely distribution of forms and reporting to students. In designing the MDE Request for Proposal, we have taken steps to ensure that this objective will be met. One of the features which will be contractually specified under the new procurement is a dedicated telecommunications system which will, coupled with the electronic transmission of applicant information, significantly improve the application processing turnaround time.

The Department agrees that by providing student aid information to families of children in junior high school, these families may better plan for the postsecondary education of their children. The Department intends to explore ways to distribute student aid information so that it is more readily accessible to junior high students and their families. The Department will also explore the possibility of incorporating case studies into the student aid information documents so that students and families can estimate their future eligibility for aid.

The Department believes, however, that providing eligibility computations to junior high school students would be of little value to those students and their families. Since at the time these eligibility assessments would be calculated, these students would be as much as six years away from enrolling in postsecondary education, the information gleaned from such an analysis based on current circumstances may be limited, since past experience has demonstrated that economic and eligibility conditions change considerably during this span of time. Any attempt to predict the future would be subject to factors which may or may not make such an analysis useful. In addition, such an endeavor would greatly increase the cost of the MDE contracts, since by implication junior high school students would have to submit a form similar to the regular application form in order to get an individual analysis of their circumstances.

The Committee recommends that the Department secure qualified processors through an open, fair and competitive procurement that weighs technical factors as highly as cost and eliminates the arbitrary participation criteria as processing one's own form or electronic student aid reports.

The Department intends to secure qualified processors through an open, fair and competitive procurement. Neither large, private data processors nor small need analysis processors will be precluded from being able to compete for this procurement. Technical factors will be weighed at least as highly as cost in the evaluation formula. However, to be awarded a contract, the cost must be deemed fair and reasonable as mandated by the Federal Acquisition Regulations. The MDE procurements will not contain participation criteria.

The Committee recommends that the Department determine all processing fees—unit and system development charges—competitively as in other ED procurements.

We agree with this recommendation. Consequently, our plans for the contracts to be awarded next year are that system development and unit processing fees, while not standardized across vendors, will be set by the procurement competition.

The Committee recommends that the Department exclude forms development costs as reimbursable expenses under the contract.

Under the new procurement, the MDE RFP statement of work will not include form development as a contract item to be provided by the MDE agencies. The Federal core data elements and instructions will, instead, be provided as Government-furnished materials to all successful offerors.

The Committee recommends that the Department increase the number of MDEs to a level to ensure optimum capacity and services to students and institutions and to minimize costs to ED.

Implicit in this recommendation is the apparent belief by the Committee that the optimum number is some number greater than the current four. The Department agrees that the number of MDEs should be at a level to ensure optimum capacity and services to students and to minimize costs to the Department.

We look forward to continuing to work with the Committee staff regarding these issues. At this time, I would be pleased to answer any questions you may have concerning the Department's plans for implementing improvements in the Federal student aid delivery system.

Thank you.

[The prepared statement of Daniel R. Lau follows:]

Statement of Daniel R. Lau
Director, Student Financial Assistance Programs
U.S. Department of Education
on

Student Financial Aid Delivery

before the

House Committee on Education and Labor
Subcommittee on Postsecondary Education

September 24, 1988

Testimony before Mr. Williams

Mr. Chairman, I am pleased to be with you today and I appreciate the opportunity to respond to the recommendations of the Advisory Committee on Student Financial Assistance. I shall briefly address the Committee's recommendations and the Department's plans for implementing improvements in the Federal financial aid delivery system.

o First, the Committee recommends transforming the current Pell MDE contracts into Title IV contracts - vehicles that support the delivery of all Federal student aid programs.

Both the MDE agency applications and the direct Federal (AFSA) application have always been, and will continue to be, used for determining eligibility for Pell Grants as well as the campus-based Federal programs. The Department and the MDE agencies have also taken steps toward fuller integration with the Stafford Loan (GSL) program application system. Our objective is to allow the student to apply for all Title IV programs through the use of one application--either the direct Federal application or an MDE agency application.

While the Department strongly supports the goals of simplifying and integrating the application and delivery systems of the Title IV programs, we do not believe that maintaining the availability of the direct Federal application to students and schools contributes to "fragmentation" of the

system from the perspective of the student. Schools which do not want or need to use the more lengthy MDE forms (for purposes of non-Federal aid) should not be forced to use them. Moreover, the cost of providing the Federal form is very moderate, and its availability promotes competition and cost control.

One of our primary objectives in our effort to improve the Title IV delivery system is to further integrate the MDE agencies into the process. The Department has been pursuing this objective for several years. Currently, MDE agencies are permitted to perform the entire array of need analysis and editing procedures required to determine the eligibility of students for all of the Title IV aid programs. As part of the Department's procurement planning, we intend to issue awards early in 1989 for the 1990-91 processing cycle. These contracts will provide that the MDE agencies will be collecting a student's financial data and immediately transmitting that data electronically to the Federal processor. The student's Title IV eligibility calculations will be performed by the Federal processor and returned by electronic transmission to the appropriate MDE agency. The MDE agency will then generate and forward an eligibility report to the student. If the student is required to make a correction to his or her eligibility report, the student will forward the corrected information directly to the MDE processor. We believe this will result (for the first time) in an application process that will appear as a

single process, since students will only have to deal with one organization to have their eligibility determined for any Title IV aid program rather than, as in the past, having to rely on the central processor for the Pell Grant Student Aid Index (SAI) and the MDE agency for calculation of the Family Contribution (FC).

- The Committee recommends that the Department require all MDE contractors to implement a standard, free common form for Federal programs through a specific participation criterion.

The Department supports this general objective as well as the Committee's recommendation that the MDE applications separate the Federal "core" data elements from the "supplemental" data elements which are used for non-Federal program purposes.

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We agree with this recommendation. Consequently, our plans for the contracts to be awarded next year are that system development and unit processing fees, while not standardized across vendors, will be set by the procurement competition.

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Implicit in this recommendation is an apparent belief by the Committee that the "optimum" number is some number greater than the current four. The Department agrees that the number of MDEs should be at a level to ensure optimum capacity and services to students and to minimize costs to the Department.

We look forward to continuing to work with the Committee staff regarding these issues. At this time, I will be pleased to answer any questions you may have concerning the Department's plans for implementing improvements in the Federal student aid delivery system.

Mr. WILLIAMS. Thank you very much.

Mr. Martin.

Mr. MARTIN. Thank you, Mr. Chairman. As always, it is indeed a pleasure to appear before this Subcommittee, and again let me commend you and the other members of your Committee for the work and the attention that you have given to this and to student aid in general through the years.

Today, I would like to just summarize briefly the statement that we provided for the record, and talk about some of the items that we have covered in our paper, which basically fall into four major areas.

The first being standardization of forms and processes. Secondly, predefined criteria that has to be followed by the new multiple data entry processors. Costs that are associated with student aid applications and other services, and then the timelines for implementing the proposed changes.

Let me say, Mr. Chairman, that we fully agree that the current system is in need of some overhauling and revisions. The forms do, perhaps unnecessarily, give the appearance of being too cumbersome. And let me say that through the last several years I have seen many items added. In some cases, those are items that have been added because of needs of institutions. In many cases, let me say that they have been added because of various regulations or other acts that have been imposed on the student aid delivery system that have little to nothing to do with delivering aid to students.

But nevertheless, particularly for low-income and at-risk students, they are overwhelming and I think many times perhaps present to those individuals the fear that this is too much, I cannot get through this, and therefore problems are presented.

We do believe that the form can be developed to have a standardized set—consensus set of standardized data elements. We think it is important, however, that in developing that that we make certain that those elements are sufficient not only to just simply drive the formulas but to really ensure that we can administer the aid programs at the institutions satisfactorily within the guidelines and for the needs of students.

Let me just share with you that a few years ago we had a task force through the Student Aid Coalition that worked with the Department of Education in an effort to really try and develop a consensus set of data elements. And we were real, real close. And in the final analysis it broke down because of primarily one individual in the Department of Education—and it is not my colleague Dan Lau that is sitting next to me, I might add, this gentleman is gone, by the way, now, thank goodness. But in any event, let me say that we were to the point of where we were down to five elements in terms of differences of where we were, and these were elements that were absolutely essential for institutions to have in order to know things at the time to provide needed services to students. And the decision of the Department was no, those could not be added to the Federal core.

And as a result of that, as I think Mr. Craig has said, institutions have been forced in many cases therefore to turn to alternative

forms and those in many cases where fees are charged, to ensure that they get delivery of services.

The real question here that we are talking about that was made earlier by my colleagues Brian and Jim is the question of full service MDEs, and that is the real test. If the Department of Education in its contracting ensures that these processes are full-service, then I believe they will be used and effective with institutions. If they are not, I can assure you that institutions will continue to look to other places to fulfill their needs.

Let me also say that in addition to simplifying the application, the initial application for students, we believe it is time to simplify and standardize many of the other processes that are involved too. We have a huge proliferation of differences on GSL application forms, differences on confirmation reports that institutions fill out. And if we would really work together I think cooperatively in setting some standards that everyone understands in terms of how we are going to present data in similar formats and for the technology and for inputs and outputs, then I believe that in the long term that will not only prove cost effective, but there is no doubt in my mind that it will reduce errors and make the system much more efficient and understandable for everyone.

We also believe that it is way past time to get rid of the Student Aid Report and the separate Application for Federal Student Aid that the Department provides to their central processor. And I would just say that I would take some exception with Mr. Lau and the recommendations the Department has made in saying that they do not think that is necessary. We do think it is necessary. It is duplicative and we do not see the need for having it.

We are also very concerned, and we are pleased that the Department is talking about opening up the procurement process. We are glad to see that they are eliminating some of the criteria that we think has been perhaps unnecessary in the past. On the other hand, we want to make certain that there is predefined criteria that must be adhered to by any processor that is subsequently selected.

It is absolutely essential that these processors be held accountable to deliver their services on a timely basis. One of the reasons, in my opinion, that students often will even on their own send their information through through one of those services that will charge you the fee is they get the results back many times two to three weeks earlier, to know what their eligibility is, as opposed to waiting on the slowness of the Federal system. And that is significant to a student who is trying to make a decision and wants to know whether or not I am going to have aid. That is an important decision and therefore we need to expedite that for them.

We also need to make certain that students can apply for more than one institutional agency at a time. The current Federal form allows you to apply for one single institution of where to have your data sent. For the young person today that is trying to look at what is the best educational institution for he or she and to shop a little bit and maybe find where they can get the best package or look at other opportunities, that is totally inadequate.

These are the kinds of things, and we have listed others in here, that we think have to be done and that these processors, after they

are selected, must be required to do. And the Department must be assured that they are going to develop reasonable standards and then see to it that they are carried out.

Let me also now turn, if I may, Mr. Chairman, to the cost issues, and particularly let me say that NASFAA has always supported the elimination of fees for processing student aid applications for needy and qualified students.

One of the problems, however, that we have is the question, as Mr. Craig said earlier, who does pay. It is our feeling that low-income students in particular, the fees sometimes are a barrier. I think we have had evidence of that, that students have said sometimes that is difficult for them. At least we have antidotal evidence of that.

Let me say that there are many other fees that are barriers in terms of admissions processes and so on that get in the way of it too, but I think it is time that we address this one.

On the other hand, let me also note for the record that many of our members are well aware that there are many upper, middle income and higher income families that also apply through the system that clearly have the means to pay for the fees. And there is some concern that by doing this, should they really receive that subsidy. Would that money not be better spent if we could transfer it into awards for low-income students. The problem is how do we distinguish between the two groups and do it in a fair and consistent manner that makes sense up front. And that is a very difficult task. There have been suggestions that you do that based on the kind of tax return somebody files or on a certain income cutoff, but I am not certain, quite candidly, that any of those work really well.

So if we are going to have a free system then and go forward with it, we need to recognize that and we need to also recognize that there will be additional costs incurred by the Federal Government in terms of providing that service for all students. And I think it is important also to make certain that those costs are not unfairly shifted to either institutions or to states or other entities.

Just as Mr. Craig has noted, many of our institutions are very concerned that suddenly if we have four MDEs and so on and you have to pay for these ancillary services, they simply note that we will be forced to pass that back to students in the form of higher fees or tuitions or go to the taxpayers. It is a very difficult issue and budgets are tight, and we recognize the limits of resources on the whole system and certainly the pressure that you are under. But we do feel that it needs to be addressed and we do hope that a reasonable solution can be here and that we can get on with the task of what has been in the law for sometime and that is removing fees for all students for processing Federal aid applications.

We also do not think it is unreasonable, however, in some cases to ask students to pay for ancillary services or for data that needs to be collected for other entities or state programs or perhaps certain private programs.

We also are pleased to see that the Department of Education, as I said, is going to open up the bidding process. We think that is important to have an open, fair, competitive procurement process that will weigh technical factors as clearly as costs, and we hope the Department will do that and do that fairly. One of our con-

cerns is that we do not go out and get the low bidder. I think again, as has been stated many times, the reason people in some ways do not use the Federal system is because they feel that the services are inadequate. And the one thing with the private services, if I am paying for them, you can bet that if I pick up the phone, if I am an institution, and start hollering at them, I get attention and they are going to be responsive to my needs in ensuring that the forms are out on time, that I am getting my output when I should. I do not have that same assurance when I pick up the phone and call the Department of Education or their central processor. And that is a significant problem in terms of why many of the schools select the services that they do.

Last, let me talk briefly about the timelines because I think this is the most significant thing that we are concerned about. And I think it was a concern to the Advisory Committee and I know that we all struggled with that equally.

We recognize that the Department of Education is ending their cycle and it is time for them to proceed with their new procurement cycle for the coming year. And in all due respect to my colleagues in the Department, clearly they have to get on with that. But I also think we have an opportunity here with the excellent work that has been done by the Advisory Committee and the general principles that have been laid out, that we are moving in the right direction but we need to take some time to also make certain that we go a little farther and really know where we are going and making certain that all parties are going to be following the same road map.

In that regard, I think we are feeling a little pressured because of the requests by the Department to make certain that we have to go forward. We would hope that the Department does not get itself locked into a position here. Under its procurement process, through three-year contracts, as has typically been the case in the past, to limit opportunities to make needed changes to the overall system. We would like to see the Department instructed by the Congress to begin to appoint some task forces to work with the educational community to begin to standardize data elements, to analyze the full system and develop the specifications and the requirements that everyone is going to go forward on this, and we believe that if people are sincere about that and are interested, that that can be done in a fairly short time frame. There is no reason that people in good spirit working together could not achieve this goal easily by next summer.

And if that was the case, then the following cycle, you could easily put into place many, many needed improvements. Now that does not mean that for the next cycle of the 1991-1992 cycle, which the Department is working on, that we cannot begin to make changes. There are many things and steps that they could go forward on now. I see no reason, and Mr. Lau has outlined some that we are delighted with, but I think they could go further.

I still do not see the need to send the data back through the central processor to recalculate and run that through their computers. I mean a computer is a computer, I know how to do one, I could sit down and program one for you to run it on campus with a PC to do that formula and run the edits. I do not understand why we have

to run back to them. If we have got MDEs that are competent and have evaluated them, they clearly have the means to do the same thing. That transmission back and forth is for one reason and one reason only, and that is a fear of control. And they want to make certain that they keep their finger on it at that point. You can exchange data to back in, to deal with the data for management purposes that are necessary. You do not need to do that as a part of the application process. Any one of the current MDE processors that are out there can perform all of those functions as well as the central processor that is selected by the Department of Education.

I am not criticizing the quality of the central processor. I am simply saying you have got the same entities doing the same thing over and over, and that is the duplication in the system that does not make any sense.

So we would hope that we would move forward in some of these areas in beginning to improve the system, to begin to stop the duplication, but let us also not lock ourselves in to a long-term central processor with a lot of predefined criteria that may be unnecessary as we face the specs. Let us also make certain that we are moving forward to implement a free, common form that can be used and that that form is comprehensive to deliver full services. That will make the system better for everyone and certainly for students and parents most importantly.

I thank you for the chance to be here and I will be happy to comment on anything else that you would like to ask.

[The prepared statement of A. Dallas Martin, Jr. follows:]

Statement of
The National Association of
Student Financial Aid Administrators

Field Hearing on Financial Aid Delivery Systems
Before the House Subcommittee on Postsecondary Education

Presented by
A. Dallas Martin, Jr.
President

September 24, 1988

90-373 O - 88 - 4

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to appear before you at this field hearing to discuss the issue of Multiple Data Entry (MDE) processors and the student aid delivery system, and the recent report on this subject that was submitted by the Advisory Committee on Student Financial Assistance. I am here today representing the more than 3,200 institutional members of the National Association of Student Financial Aid Administrators (NASFAA), the premier student aid organization, of which I am President.

We commend the Subcommittee's attention to this important issue. NASFAA has been involved for several years in efforts to examine need analysis and the delivery of student financial aid. While our investigations continue, it is clear that our membership is supportive of attempts to simplify the need analysis process and the student aid delivery system.

Our comments today will focus on four major areas: standardization of forms and process, predefined criteria for MDE processors, costs associated with student aid applications, and timelines for implementation of proposed changes.

Standardization

NASFAA supports efforts to standardize the financial aid application forms and process. Two aspects must be addressed in considering this issue: the variety of application and other documents utilized to deliver student aid, and documents used to convey the results of the need analysis. We believe that all means of transmitting information must be standardized, including paper documents, magnetic tape, and electronic communication.

Currently there are a number of application documents a student may use to apply for student financial aid. While these forms tend to be similar, there are differences in format, primarily due to technological processing variations, and in the arrangement and collection of data elements that are unique to specific state or private aid programs. While these differences are minimal, they often may appear to be more significant to students and parents completing the forms. Therefore, we would support the implementation of a common, standardized form which will enable all students to apply for federal student assistance. We believe the following points should be considered in developing this common application document.

- The form should include a consensus set of standardized data elements the sequence and arrangement of which could be adjusted for technological processing differences, but which would otherwise be consistent.

- While the number of data elements should be kept to an absolute minimum, it is essential that adequate information be collected not only to drive the need analysis formulas, but also to effectively administer and operate the financial aid programs without contributing to a significant proliferation of ancillary forms.

- Consideration should also be given to consolidating and collecting all compliance, disclosure, and release statements as a part of the initial application document, so as to avoid duplicate collection by individual institutions, states, and other parties involved in the delivery process.

In addition, individual processors should be allowed to collect supplemental data that may be needed by some institutions or states in order to effectively administer their own programs. While we hope that to the extent possible, this data collection can also be standardized, it is important to recognize that there are certain informational needs that are unique to only one particular program. Therefore, this information should be collected on either a separate section or separate part of the common application.

We also believe that if the total delivery system is to be redesigned to improve efficiency and better understanding among the parties involved, every effort should be made to standardize all documents used in the delivery of student aid. These should include not only a standardized initial aid application, but also standardized applications for the Stafford Loan (GSL) Program, student loan confirmation reports, output documents that are provided to students and to institutions, correction forms, as well as other reporting documents. While we realize that all parties will incur some expense in modifying their existing systems and forms, we sincerely believe that this type of standardization will help to reduce errors and enhance the cost-effective operation of the student aid programs in the long term.

In addition, it is critical to develop specific standards that can be used to define how data is to be input into the system, as well as how and in what forms it will be transmitted out of the system. Given the significant differences in operating systems among all parties, it is essential that the process be developed to accommodate not only paper transmission of information, but also provide for communication through magnetic tape and electronic means. While we will address the issue of costs later in our remarks, we believe that selected processors must be able to transmit this data to other entities in any of the forms noted above without additional cost to the receiving party.

In order to encourage use of electronic transmission of data, it is also essential that the system be designed to allow the use of electronic mailboxes for parties receiving data. This will facilitate the receiver's ability to access and control the flow of data in the most efficient manner.

We also recommend that the separate Application for Federal Student Aid (AFSA) and the Student Aid Report (SAR) currently produced and distributed by the federal central processor be eliminated as soon as possible in favor of transforming the current Pell Grant/MDE contracts into Title IV contracts. Each of the Title IV contractors would then be required to produce and distribute the standardized common form for federal student assistance, as well as a standardized institutional and student eligibility output document which could be used for all Title IV programs.

Predefined Criteria

The Advisory Committee's report also recommends the need for predefined criteria for all Title IV contractors. While we support this recommendation, we believe as a minimum, the following requirements should be included as a part of these standards.

- Each of the standardized application forms should provide students with the opportunity to apply to multiple institutions or agencies. The current federal application (AFSA) permits students to have their data sent to only one entity. We believe it is reasonable to allow a student to easily apply to several entities at the same time. Given the fact that many entering students apply to several institutions and to other providers of funds as a part of their initial search for an appropriate educational opportunity, we believe consideration should be given to including a minimum of six codes that may be listed to receive the results of the need analysis.

- All selected Title IV processors should be carefully monitored by the Department of Education to ensure that they are processing data and transmitting the results within predetermined timelines that will enhance operational efficiency of the system and timely exchange of data between involved parties. Contractors who fail to adhere to these requirements should be suspended from participation, except in the case of extreme and unusual circumstances beyond their control.

- All selected processors should also be required to perform specified alternate calculations that are essential to enabling institutions to determine a student's eligibility. An example of a

necessary alternate calculation would be one which facilitates adjustments in determination of a student's eligibility based upon the length of their enrollment within a given year (e.g., 12-month and 6-month calculations in addition to 9-month calculations).

- Selected processors should be required to provide training support services and documentation for their own systems. This form of training should not encompass issues related to the management of student aid programs, but should focus on information needed to effectively utilize the application documents and other services furnished by the processor. In addition to providing training assistance for financial aid administrators, such support should also be mandated for high school guidance counselors, and students and parents. All training activities should be conducted initially within a specified timeframe, and on an as-needed basis.

- Selected processors must also adhere to systems standards that are established by the Department of Education in consultation with the education community to ensure consistency of input and output formats, standards for data exchange, and ease in interfacing with electronic operating systems and software.

- Processors should be required to utilize a standardized correction form to facilitate students' and aid administrators' ability to make adjustments to erroneous or incomplete data in a timely manner. Additionally, means to provide corrections in an electronic mode should also be developed.

Cost Issues

The Advisory Committee's recommendation also reaffirms the statutory provision which notes that no student or parent shall be assessed a fee for completing an application form for Title IV student assistance. NASFAA has always supported the elimination of fees for processing student aid applications for needy and qualified students.

We would note, however, that a number of our members have expressed concern about the costs associated with this provision. Of particular concern is the fact that there will be many students who clearly have the ability to pay for application costs but who will now be subsidized by the federal government. For example, individuals from upper income families who would only qualify for unsubsidized loans such as Supplemental Loans for Students (SLS), are now be required to first apply for Pell Grant and Stafford Loan program funds before their SLS eligibility can be determined. Many of our members believe that these students should not be the beneficiaries of free application processing when such funds could be better spent on awards to low income students.

Similarly we recognize that there are needy students who may be discouraged from applying because they lack the available means to pay processing fees at a given point in time. Therefore, the difficulty is distinguishing the students who should be charged from those who should not. Some people have suggested that perhaps an specified income level or the type of federal income tax return an individual or family files might be used as factors to make this distinction.

Additionally, other members have expressed concern that additional costs for basic services, including the various means of receiving data, not be shifted to institutions or states. Given current operating budgets and resources at these entities, if such costs are transferred to them they note that it will only be passed on students in the form of higher educational costs. As such, a careful balance must be reached.

NASFAA also supports the Advisory Committee's recommendation that students may be assessed fees for collecting and processing supplemental information. It is our sincere hope, however, that with the improvement of the overall delivery system, such assessments can be minimized.

Another set of cost factors that also must be taken into consideration relate to the procedures used to determine the amounts paid to processors to perform the tasks defined in their contracts. The Advisory Committee has noted that the level and range of processing fees paid to contractors should be set through an open, fair, competitive procurement process that weighs technical facts as strongly as cost factors in proposal evaluation.

NASFAA supports this approach if, in fact, it is performed correctly. It is essential, however, that the Department of Education develop realistic, objective criteria to be used in evaluating each bidder's overall technical competency and to make certain that each bidder has a thorough understanding and proven experience with the process and the student aid programs.

The selection of processors should not be done simply on the basis of who presents the lowest bid, rather contractor selection should be based on who can perform the tasks well and provide high quality service. Additionally, the government must be willing to pay fair, reasonable, and competitive prices for all tasks that are performed and for this quality service. Contractors should also be required to treat the data received through the application process in a highly confidential fashion. Such information should not be sold, exchanged, or used for other purposes that may enhance their own or other parties' marketing of goods or services.

Timelines

NASFAA has serious concerns about the timelines for implementation of proposed changes. While we understand the Advisory Committee's desire to be responsive to the needs of the Department in terms of its procurement deadlines, we believe that there is some risk in proceeding too quickly with a wide range of changes or prematurely making contract decisions which will result in delaying need changes to the system for several years.

Many people have expressed concern that the current system is too complex and therefore needs to be adjusted, however, we also believe that continuously changing the system has also contributed to the confusion and the lack of understanding of the process. This has also resulted in instability and has discouraged cooperative efforts to standardize the operational aspects of the delivery system. If this is true, even in part, proceeding without adequate exploration of all issues involved in the delivery system will only increase that confusion or result in delaying needed improvements. We maintain that it is imperative that the complete delivery system be expeditiously examined and that the systems standards and specifications be thoroughly developed before major changes are initiated or desired improvements are delayed.

Let me clearly state that NASFAA members recognize that it is time to embark upon a course of action which will enable us to redesign and improve the total student aid delivery system. Institutional aid administrators are frustrated with the complexities and cumbersome qualities of the current system. As a result, these individuals are forced to spend the majority of their time handling, sorting, and checking reams of paper and untold amounts of data rather than being able to counsel and assist students. Student aid administrators have unfortunately been increasingly forced into a role of serving as a "policeman" and "compliance officer" for the federal government rather than being able to help students find the means to finance their educational objectives.

We believe that it is time to overhaul the whole system to make it more efficient and humane, but this cannot be done unless Congress, the Department of Education, and the education community

work cooperatively and systematically toward these goals. Therefore, it is important that the Congress direct the Department of Education to establish working groups of representatives from the education community who are involved in the delivery of student aid to carefully develop and define the systems standards, specifications, and data necessary to enhance the effective operation of the total system. If the system is to be responsive to students and is to be adaptable and easily usable for all parties, then it is important that it be developed with the benefit of input from all parties.

We also must remember that the populations and entities to be served are diverse and have different and unique needs. Therefore, to the degree possible, every effort should be made to satisfy and effectively serve as many of these groups as possible. We do not believe that this can be accomplished unless the Department of Education is fully committed to working cooperatively with the education community to achieve these ends.

Additionally, we recognize that the Department of Education is entering the last year of its current central application processing contract and is in its four Multiple Data Entry contracts. In order to have an application processing system operational in time for institutions to develop student aid packages for the 1990-91 award year, work on the next processing cycle must be concluded not later than July 1, 1989. As important as this whole contract process is, we also do not want to see these current efforts contributing to further delays in beginning to revise and improve the whole delivery system.

If the Department elects to institute another central application processing contract for a three year period as it has done in the past, the chances of significantly redesigning the delivery system and eliminating duplicative and unnecessary functions will be diminished or certainly delayed beyond a reasonable period of time. Therefore, we do not want to see the current procurement and contracting cycle to lock us all into three more years of the status quo or only marginal improvements. If the Department is directed to begin working with the community to design and develop an improved system by July 1, 1989, then it should be possible to implement a completely new system by the start of the 1991-92 award year.

In the interim, however, steps should be taken in the current procurement cycle to begin to incorporate many of the recommendations and improvements that NASFAA and the Advisory Committee have advanced. Needless to say, NASFAA and its members would be more than willing to provide as much help and assistance as is necessary to enable the Congress and the Department of Education to accomplish this goal.

While the timing of the Advisory Committee's preliminary recommendations regarding the MDE contractors were prompted, in large part, by the Department's procurement cycle, it is important to recognize that the Committee's paper was not intended to be a comprehensive or final statement on how the total delivery system should be structured. Many important facets of the delivery system have not yet been examined. While NASFAA is in agreement with the general framework of the Advisory Committee's recommendations, we believe that there are many undefined aspects in the proposals that have been advanced.

We are particularly concerned about issues related to the reconciliation of data and payment information that occur at the completion of the student aid process. We also would like to have a more complete description and understanding of the roles and tasks that will be performed by each of the Title IV contractors as well as the central processor. These are important variables that must be examined in order to ensure proper control, accountability, and effective operation of the student aid programs. We are not trying to be critical of the suggestions that have been advanced,

nor do we mean to impede the progress in simplification, but we believe it is important that the changes we make substantially improve the effective delivery of student aid dollars to needy students.

We also strongly believe that the paperwork burdens on all parties should be reduced, however, given the diversity of students that are served we must also make certain that the system provides sensitivity and equity for all. Of specific concern to our members is the need to make the system more humane for all parties, but particularly for low income, disadvantaged students and their parents. We believe that it is unnecessary for a student whose family is currently receiving public assistance or who is living at or below the poverty level to be forced to totally reapply through the whole application system each year to simply prove one more time that they are poor. While it may be necessary for the student to update the file regarding his or her earnings or sources of income or academic status, it is absolutely unnecessary to make the whole family go through this involved process year after year. Therefore, we would hope in developing the redesign of the whole system, these kinds of issues will also be examined.

In the interim, we would also hope that as the Department proceeds with its next contract cycle, serious consideration be given to eliminating the SAR and the processing function of the federal central processor. These are steps that can be taken quickly if there is a willingness to do so. Similarly, we would hope that we could work with the Congress and the Department to quickly develop an agreed-upon set of data elements that could constitute the core form. We would be happy to work with the Congress and the Department of Education to facilitate the implementation of these modifications.

Again, I appreciate the opportunity to appear before you today and welcome any questions or comments you may have. Thank you.

Mr. WILLIAMS. Thank you. Mr. Jeffords.

Mr. JEFFORDS. Well thank you Mr. Lau first of all, for the help you have given us over the years. It has been very, very helpful for us to understand the problems we are having with the financial aid and to make corrective improvements.

I have some questions related again to fees. Since we are providing a free form and free processing, who set the fee at $7.50 for the transmission to the colleges and why was it set at that level? I mention that because doing a little quick mathematical computation here for the University of Montana, it would seem to me that it would be about a dollar for an electronic transfer and certainly mailing it should cost nowhere near $7.50. Where does that money go and why was that fee set and who set it?

Mr. LAU. Well the fees are set by the MDEs themselves. We have no role in setting that fee. And that fee covers a wide range of services above and beyond what we are paying for.

Mr. JEFFORDS. You had no role in setting it, that is for a free form and a free process?

Mr. LAU. That is for the other range of services and the supplementary data and other things that they collect, it is not for the core data elements.

Mr. JEFFORDS. Well I am sorry. If I fill out a free form that has no other data on it other than the free financial form, according to this form, at least as I see, I still have to send $7.50 to get it from there to my college and $5.00 for every other one.

Mr. LAU. The only free form right now, other than the two state forms that were mentioned earlier, is the Federal form. And like I say, the MDEs who do have a fee, that fee in essence pays for a range of services they provide the institutions.

Mr. JEFFORDS. Let me ask you this question. I fill out the free one and I send it and it gets processed. Where does it go to get processed, an MDE?

Mr. LAU. It would go either—there are three free forms right now, it would be either the Illinois form, the Pennsylvania form or the Federal form.

Mr. JEFFORDS. Now do I have to pay the $7.50?

Mr. LAU. No.

Mr. JEFFORDS. Do I pay anything to get it——

Mr. LAU. Not to use one of those three, you do not pay anything.

Mr. JEFFORDS. To get it to the college.

Mr. LAU. To get it to—in our case, we send the data to one college. The student can make a correction and have us send that to a second college at no cost to him or her.

Mr. JEFFORDS. Now the free form is only for Pell applications, right?

Mr. LAU. No, it is for all Title IV, and it has been for some years now.

Mr. JEFFORDS. Mr. Martin?

Mr. MARTIN. Mr. Jeffords, let me try if I may, because I think there was some confusion during that discussion previously about how that works.

Currently the Federal Government, through their contractor, National Computer Systems, does have a form, it is called Application for Student Aid, it is the Federal form, that is a free form. In

other words, if a student takes that application and fills that out, they mail that form directly to the central processor, which is located in Iowa City, and the form is processed free of charge on behalf of that student and the results then are transmitted to one entity that that student has requested. Now the student, as Mr. Lau has pointed out, could go back and request it be sent to somewhere else but that is done. The results of that information then would go out to that institution that the students designated.

In addition to that, the other forms, the Illinois form and the Pennsylvania form, are not—there is not a fee attached to them, those are subsidized by those two respective states for their students and they were primarily designed for students within their states.

The other two MDE processors, the College Scholarship Service and the American College Testing Program, do set their own fees and they set fees on an annual basis, both for the initial application, but if the student wishes to send the report to more than one school, then there is a decreasing fee schedule based upon how many others you want to, that comes down. But they set their own fees on that for their applications.

Mr. JEFFORDS. On the RFP though, there is no requirement to know what those fees are?

Mr. LAU. No, there is not.

Mr. JEFFORDS. If you limit the numbers, then it gives them an advantage, putting whatever fee they want in unless some competitor comes along and under-charges them?

Mr. MARTIN. Not really because—let me try to clarify again. What the MDEs are reimbursed by the Federal Government for is basically taking the data that they get through the data sets and transmitting that data then to the central processor in Iowa City, in other words, the Government's central processor. And they are reimbursed a fee for processing that data, putting it into a certain format and then transmitting it to that central processor who in turn runs that through and the central processor does send out then to all schools—and they are the only ones that currently do so—the eligibility report for the Pell Grant Program, which is the SAR, the Student Aid Report. That is the output document that comes out from the central processor in Iowa City for all students who are interested in applying for the Pell Grant Program, to prove that they are either eligible or ineligible.

But those other MDE processors also transmit data to institutions or do alternate calculations or provide alternative services to them, and usually in a time frame that is much more expeditious than the one that operates through the central processor. I am sorry it is so complicated, Mr. Jeffords, we almost need a blackboard to draw a diagram.

Mr. JEFFORDS. Well my only concern is, and maybe you can answer that one, do you feel that excessive fees are being charged, which in essence get over and above what should be the appropriate compensation for servicing these things?

Mr. MARTIN. I do not think there are excessive fees charged by the independent processors. I think that you have to look at that part of the fees that the students are paying, and let us be direct and up front about that, is not just for the processing of the form,

part of that is also for ancillary services that are provided to institutions in terms of better services, in terms of maybe magnetic tapes that are put out to them or electronic transmission, other publications and stuff they receive that assist them, sometimes training workshops. These entities also perform their own research in student aid and policy issues and so on. And some of that cost is borne obviously by the whole fee structure. But the core of it, the basic core, is obviously for the processing and running of those ancillary services.

The amount they receive from the Federal Government as reimbursement for their MDE is only paying for a subset of the full range of services. The Federal Government in no way pays for the full range of processing services that are involved from the start of this process of designing, implementing, printing and distributing forms to designing software programs, hardware, setting that up and developing those systems, operating those systems and sending all that out and doing the operations back and forth of corrections and reconciliation. That is not being done and they are not reimbursed for that at the present time. That is why they use their fees.

In the case of Pennsylvania and Illinois, that cost to a large degree is being supported in part because of state funding. Those states have elected to do that, they just are going to pick up the cost.

Mr. JEFFORDS. Thank you, Mr. Chairman.

Mr. WILLIAMS. Mr. Martinez.

Mr. MARTINEZ. The more I listen, the more confused I get.

Mr. MARTIN. I recognize that, Mr. Martinez, I have the same problem when I talk about it, I get confused.

Mr. MARTINEZ. But one thing that is clear: it is the joke about the three big lies, "the check is in the mail, I gave at the office and I am from the Federal Government and I am here to help you". [Laughter.]

Mr. MARTINEZ. Has the new Secretary of Education been confirmed yet?

Mr. LAU. Yes, he was on Tuesday and sworn in the same day.

Mr. MARTINEZ. Well maybe we have a chance now, because being Hispanic, he may relate to the Hispanic people in this country that really are at a disadvantage in this whole system, as are minorities in general. It is not only minorities, there are disadvantaged other than minorities, who are at a great disadvantage. We are concerned about all of them, especially when the Federal Government is reluctant to change its attitude toward delivering service to these people. It's reluctant because these programs are envisioned as some kind of welfare that the taxpayer should not bear. That is one statement that I referred to earlier, one paragraph. I hate to show you what I wrote across it, but it sounds more like a political statement than it does a statement of a professional bureaucrat—worrying about the taxpayers.

Well there are taxpayers, like myself, that do not mind paying the tax dollar that goes for education because it provides us with more revenues in the long run. When these educated people get higher salaried jobs and are assets rather than liabilities. We are penny-wise and dollar foolish.

Most of the people that are looking for education will make great contributions to us, by developing their talent that has been wasted by this society for too long, and by their contributions to the innovative process in this country.

But what I am concerned about is realistically looking at this thing in a way so that we all understand the real problem here. You know, I would imagine that about 80 percent of these students who apply for loans only apply for the Federal portion. Do you have any way of knowing?

Mr. MARTIN. I think that it is fair to say that because the Federal Government provides about 75 percent of the total dollars, I mean they clearly provide the lion's share. There are also a number of institutions that do not have, to any significant amount, other outside money, either private money or maybe small amounts of state money.

Mr. MARTINEZ. So the ancillary services that are provided by these MDEs is about 25 percent then?

Mr. MARTIN. Well Mr. Martinez, let me clarify that it is really more than that because even institutions—many of our institutions that only have—primarily only have Federal dollars, depend upon those services because they need additional help and support in operating the complex student aid programs. But if those services were a part of the full services that were provided by the Federal Government's Title IV processors as the Advisory Committee has recommended, then I believe that yes, they could use that and would not need some of the other.

Mr. MARTINEZ. Well the bottom line is that you are trying to get disadvantaged students and even some that are not so disadvantaged. But there are a lot of middle income people that really cannot provide the means for their children to go to college. The Congress has recognized that in the Guaranteed Student Loan Program and other programs. Sometimes we are criticized for thinking only about the disadvantaged. How about those that we do not classify as disadvantaged that are, in a way, disadvantaged because with today's cost of living, they cannot afford to go to college? Why should a middle class family not be able to send their kids to college, if we are concerned with sending the very poor to college.

Mr. MARTIN. Very true.

Mr. MARTINEZ. I think they should all go, and we should provide that because that provides us with a greater asset nationwide. To get these young people who have a potential and have a desire to get a higher education, why should we not make sure that they get a higher education? Because the bottom line is, we all benefit by it. If that is the case, why do we worry about a seven dollar fee? Why should the Federal Government worry about picking that up when it provides so many of the ancillary services that are necessary to get the kids to that basic bottom line, the education. I just do not understand that. Maybe you can answer it for me.

Mr. MARTIN. I have always had some difficulty understanding why they are not. I think there has to be a willingness on the part of the Department of Education to say that they are as concerned about this and want to deliver these programs effectively and directly in as efficient manner as I think others are.

Mr. MARTINEZ. If the biggest part of that form is for that Federal aid dollar and a smaller part of it is for the institutional support that they might get, then they ought to pay for the whole thing, because that institutional support that they might get is still helping that young person get the education.

Mr. MARTIN. I would concur.

Mr. MARTINEZ. What is the difference? They should pick up the fee and make sure that they all get there because it is not that much more in tax dollars.

A portion of what goes in one of these forms that charge a seven dollar fee, is a Federal requirement to determine eligibility for Federal assistance. The other part for any other grants that might be available has got to be a smaller portion of the Federal dollar, is it not?

Mr. MARTIN. Let me just say that the process you go through to calculate eligibility, whether you are doing Federal calculations or alternative calculations that may be used for state programs or private programs, the process is the same. Sometimes there are alternate calculations performed. There might also be additional data elements that are entered in on part of those in the core set from those other processors. But once you enter the data, the time of spinning the computers to do that and so on is not that much different. Part of the problem is we have got a duplication here. These entities are not only doing it to get it out early and quickly to people because there is such a demand for it, but we are turning around and replicating that same kind of process back with the central processor. That is why Mr. Craig made the reference I think a minute ago about the duplication of the system, and it is time to eliminate it.

Mr. MARTINEZ. I agree. The whole thing is that when we are worried about pennies and dollars and overlooking the bottom line, we really confuse ourselves. The only ones that get short-changed are the very people that we told "we are from the Federal Government, we are here to help you." I really cannot see it.

When you said that the Congress ought to instruct the Department of Education, I almost laughed out loud. The only way we can instruct the Department of Education is to pass language in a law of very clear intent and a very clear requirement. Other than that, left with what should be giving flexibility to make determinations based on what is best in the long-run, does not seem to work.

Mr. MARTIN. Mr. Martinez, I would just recall a day when we used to be able to do that cooperatively and when the Congress indicated to the Department that they wanted things done, you know, we worked very closely together and things did occur. I would hope that we will return to that one of these days so that we do not have to have so much distrust and do everything back and forth. That also can be cumbersome and get in the way, but I think the point here, if we are all concerned and we know the Congress is committed, and I think many of the people in the Department of Education are committed—there may be some less so than others, but I think most of the people are and certainly the aid community is, the people in the financial aid community—I think with good will we can move forward on this and make significant progress to improve the system for everybody concerned.

Mr. MARTINEZ. Thank you.

Mr. WILLIAMS. Mr. Swift.

Mr. SWIFT. It is really fascinating to come from another Committee and find that you guys all have the same problems we have. [Laughter.]

I do not have these problems with the Department of Education, I have them with the Department of Energy, Environmental Protection Agency, Securities and Exchange Commission, Interstate Commerce Commission, Federal Communications Commission and of course the ever-responsive and helpful Department of State.

I do not understand—and perhaps I did put words in the mouth of the previous panel when I said they had given up on you because they are recommending that you just stop screwing around with the Department of Education and farm all this out. Why can you not do as good a job as the private contractors in the areas of timeliness and as this witness has suggested, responsiveness as well?

Mr. LAU. I would like to say that I think we do right now. There was a period of time when the Department was not very responsive and had a lot of problems, but that has been several years ago. I think what you are hearing primarily at this point is past history, and the Department has been much more responsive in the last three or four years in terms of getting our own systems up and in terms of turning those systems on.

There is also a major cost issue in all of this and I think that has not been really adequately recognized. It takes money to do some of the things that are being suggested and money is not there—has not been there to do it. We are under constant pressure to see how we can get more out of less. I think we do an admirable job of doing that.

Mr. SWIFT. Did we cut your money below the administration requests for this function?

Mr. LAU. I think in some cases, not in all cases.

Mr. SWIFT. In some cases, Jim?

Mr. JEFFORDS. I think it is mostly the other way around.

Mr. SWIFT. That was my impression. You are on the Budget Committee. Have we been cutting their budget below the administration request?

Mr. DURBIN. Williams is senior to me. [Laughter.]

Mr. SWIFT. Have we been cutting their budgets below administration requests?

Mr. WILLIAMS. We have, without exception, provided the Department more money than the President or either Secretary has requested. The Department has seen fit to apply the money in different ways and it may be that some of the agencies within the Department have received less than they would have liked due to the distribution of funds, but overall, the Department has received more money than the Department has requested in each of the last eight years.

Mr. SWIFT. Well I am happy to see there is a certain consistency in the Administration, because I find this no different than the agencies that I work with on Energy and Commerce. I yield back my time.

Mr. WILLIAMS. Mr. Durbin.

Mr. DURBIN. Mr. Lau, you made a passing reference to the Inspector General's report in March of this year. As I understand it, that preliminary audit was submitted to the Department of Education in relation to the MDE services on March 9, 1988, and the Department was invited to disagree, agree, raise questions of accuracy, completeness and understandability within 15 days. It is now a little over six months later. Has that been done?

Mr. LAU. That was done some months ago. The Inspector General has not issued a final report.

Mr. DURBIN. Perhaps then you could respond to what was suggested in this preliminary report because although we have spent a great deal of time this morning discussing the problems with the form and the seven dollar fee, the Inspector General's report, I think, raises far more serious questions about whether, in fact, the Department of Education has been prudent in the awarding of contracts to the data entry processors. In fact, as I review this preliminary report, it is as tough a commentary as I have ever read on any Federal agency. It suggests time and again that the Department of Education has been awarding contracts on a non-competitive basis and that excessive costs and profits to various contractors have resulted. In one instance at least they cite a loss of $1.6 million because of lack of competition and in one particular contract an over-payment of $2.9 million.

They go on to suggest that the Department of Education in awarding these contracts has not given a reasonable and prudent reading of the law as passed by Congress on how the bids were to be let. They go on to suggest that the Department has been paying excessive development costs to the processors, excessive printing and distribution costs, and excessive profits. They also note one contractor with a profit margin of approximately 400 percent of its costs under the contract. Pretty tough.

Are you suggesting now that since the final audit is underway, that these things have been resolved, or is this a fair comment on what we have seen from the Department of Education?

Mr. LAU. We did not agree with everything that the IG said.

Mr. DURBIN. I hope not.

Mr. LAU. I do not think there have been, in general, excessive profits. I think they also had some misunderstanding as to how that process actually works.

In the early days when the MDE process first started, in fact the contracts were let on a non-competitive basis and we think, consistent with what the intent of the Congress was at that point in time. The last set of contracts that we did were done under a competitive process. What may have made it appear less competitive was the fact that there were only four bidders and we selected all four of those. We think this next bid cycle will have many more companies or organizations bidding and because of that there will be more price competition than there has been in the past.

But the IG, I think, clearly has some misconceptions as to how the process works and I think that is why you have never seen a final report out.

Mr. DURBIN. The Inspector General involved here, if I am not mistaken, is part of the Department of Education.

Mr. LAU. That is right.

Mr. DURBIN. This is not an outsider coming in trying to find their way to your offices, they are a part of your agency, are they not?

Mr. LAU. They are, but they are also statutorily quite independent, as you know.

Mr. DURBIN. As they should be. I think it is also reasonable to suggest that they are or should be somewhat familiar with the practices of the agency when it comes to the administration of these programs.

Mr. LAU. Somewhat.

Mr. DURBIN. Well I will tell you, I am anxious to see this final report because I think we may have been talking about a trifle here when we talk about how many pages are involved in the application form, if in fact the amount of money that is being spent is being wasted to a great extent. I am anxious to see that. Though I am not a member of this particular Subcommittee, those of us on Budget and Appropriations would like to find that in fact the money is being well-spent. If we are not going to be about the business of overcharging students who have limited resources, so too should we be sensitive to the over-charging of taxpayers and excessive profit margins and the like, as the Inspector General has found here.

Are we going to see this final report very soon?

Mr. LAU. You will have to ask the Inspector General, I do not know. I really do think that one of the reasons it has not come out is because in fact it would look very different than what the draft report did.

Mr. DURBIN. Well I hope for everyone's sake it does.

Mr. LAU. Because I do not think they fully understood—just as one example, they misconstrued development costs in there. They talked about excessive development costs when they have got them mixed between systems development, forms development and other things.

These programs are so complex that even in my own organization, there is no one person who understands all the intimate details of the programs and how they operate. The IG, who spends even less time with them with them than we do, does not know them as well as maybe it ideally should.

Mr. DURBIN. Wasn't it a pretty good indicator of development costs when the Illinois State Scholarship Commission got involved in their own bid to handle this work and came in significantly lower than the other processors? Did that not raise some questions as to whether development costs were being overstated to the Federal Government?

Mr. LAU. It did raise questions and it has, but the IG is also the one that goes out and audits those organizations and provides information to the contracting officer. The contracting officer apparently did not have sufficient information to make a change.

I think you also have to remember what Mr. Martin just said a few minutes ago about the fact that the states that have come into the MDE process are obviously subsidizing these operations to some extent.

Mr. DURBIN. Excuse me, was not the Illinois—was not their suggestion that they would do the work for the Federal Government?

Maybe I am mistaken, but I do not believe they are talking about the State of Illinois subsidizing their work for the Federal Government in any way, are they?

Mr. LAU. I am not sure I follow what you are——

Mr. DURBIN. Well if I understand it, when they made their proposal for the 1987-1988 year, put down the development costs and the unit costs for processing applications, they were actually bidding for work that would be done by these other independent, nonstate aligned processors, were they not?

Mr. LAU. They were essentially bidding for work in their own state.

Mr. DURBIN. But the fact that they would come in with development costs that low suggests that at least we should take a hard look at the development costs being asked by the other processors.

Mr. LAU. Well as we indicated—or as I indicated in my testimony, we are not, for example, going to pay development costs for forms development any more, although it really was a very small part of the development costs.

Mr. DURBIN. Thank you, Mr. Chairman.

Mr. WILLIAMS. Thank you, Mr. Durbin.

Mr. Lau, let me ask you to respond to the four recommendations, that were given to us by Dr. Burse through Mr. Fitzgerald.

First—and these are recommendations with regard to the RFP—first they recommend that all bidders must propose use of a single common, Federal form or a separate Federal component.

Mr. LAU. Our current plans are to have each MDE bidder bid both on the cost of their own form as well as on the cost of doing the Federal form.

Mr. WILLIAMS. Do you have a bias toward one or the other? Would one be better for the user than the other?

Mr. LAU. Well we feel that the Federal form provides all the data elements that are required by Congress, and all that are necessary to administer the Title IV programs. Not every institution would necessarily agree with that, but some of the items that Mr. Craig talked about in terms of adding additional items that the other MDE forms have on them, also add to the complexity of the form. So you get into a real pull and tug here between simplicity and complexity.

We feel we have got everything on there that is necessary in order to handle the distribution of Title IV aid and its administration.

Mr. WILLIAMS. The second suggestion from the Committee was this, all bidders must show specifically how students desiring to apply only for Federal student aid programs can complete their form or a particular portion of their form free.

Mr. LAU. That is not addressed in the RFP.

Mr. WILLIAMS. Are you in opposition, personally to——

Mr. LAU. That is a cost issue.

Mr. WILLIAMS. Is cost the difficulty here?

Mr. LAU. Cost would be the major—yes.

Mr. WILLIAMS. I remember eight years ago when former OMB Director David Stockman said the way to change policy is through the budget, and that has been successfully accomplished by the administration as evidenced in this minor matter.

The third suggestion was all bidders must propose using standard reporting to students, institutions and states.

Mr. LAU. That is not spelled out in infinite detail in the RFP but there is enough information in the RFP that allows us to in fact do that, and we are planning to do that.

Mr. WILLIAMS. And finally, all bidders must propose adequate standard reporting and services to institutions who desire to use Pell and/or the Congressional methodology for delivering aid to students.

Mr. LAU. At this point in time we do have the Pell electronic data exchange and also have tape exchange programs as well as paper-based programs to provide information to the institutions. We plan to continue that, we also expect the MDEs will continue to provide the services that they do, which as has already been indicated, are paid at least in part by the fees that the students pay.

Mr. WILLIAMS. Mr. Martin, do the financial aid officers around the country indicate to you, or do you have data that you could share with us, that would indicate that a number of students do not make application (a) because of the cost or (b) because of the complexity of the form?

Mr. MARTIN. Mr. Chairman, I do not have absolute specific data. I have had many discussions with colleagues of mine across the country. We discuss this all the time because I think the biggest barrier is more likely to be the confusion that goes on annually through the forms anxiety, if you will, than it is actually the fee itself. I am not saying fees are not important and I am not saying that for some students that the seven, eight, ten dollars is not very significant at a point in time. But there are, in most communities, high schools or whatever, ways to know about waivers or assistance that can be done. I do not know that it is so much the money.

I do know this. I do know that when we go through a process every year and the budget comes out and the Secretary of Education or the President announces that we are going to make a major cut in Federal student aid, we are going to cut back by 50 percent or we are not going to do this or that, there are a lot of low-income first generation students out there that when they hear the President or the Secretary of Education say that, they take that as gospel. They do not understand at that point that subsequently through the budget process and the hard work of Congress that funds may be restored and money is available. Those families give up and therefore, do not complete the forms or go on through the process because they believe what they heard their President or the Secretary say.

I think that, along with the fact, people then say well the forms are complicated. I have had students sit down with me and they will say "I cannot fill out the form." I will say "let's start. What is the first question there, your name." That is not too hard, most of them can get through that pretty well. We start in, but like many of them, quite honestly I do not like filling out forms. I have a real aversion to filling out forms. These forms are trying to serve all kinds of people, independent, dependent students and so on, and clearly they look very, very complicated with all the data and so on. Once you go through it, it is not quite as cumbersome as it may appear at first, but they are not easy. But again, I have to say that

a lot of other things have been added to those forms. I mean, I find aid administrators now being policemen. We have to know Selective Service, we have to monitor that, we have to deal with immigration. We are soon going to be dealing with the drug things, we have to deal with environment, we have to deal with Truth in Lending disclosures to everybody and we have to make certain that everybody says, you know, I know the Pledge of Allegiance, I am a good American, I have never done anything wrong and on and on and on.

At some point, I think, we have to assume that these are American citizens. We are finding that aid administrators are more like paper pusher and traffic cops policing this whole thing rather than counselors trying to do what they should to help low-income kids get into school.

Mr. MARTINEZ. Mr. Chairman.

Mr. WILLIAMS. Mr. Martinez.

Mr. MARTINEZ. I am going to say this because I am not going to school. You have a tremendous sensitivity to the real world, the world that exists in districts like mine, among the young people. You are right, they hear these things, comments from the administration or the Secretary of Education and they get very discouraged. They give up hope. It is very easy to discourage people who began discouraged. I was going to say how do you get that sensitivity—I do not care how you get it, you have it. That is the important thing.

I cannot understand how there are so many people living in these ivory towers who do not take the time to go live an extended period of time with the very people that you are talking about, that think and feel this way. They think "Hey, everybody can pull themselves up by their own bootstraps." What bootstraps? They do not have boots to begin with. That is the frustrating thing that I see in Congress, sitting in Congress and dealing with colleagues who do not and will not understand. Because they may come from areas where they are living in a pocket of prosperity, they just refuse to look and see the real problems that exist out there because then you do not have to deal with them and your conscience does not have to deal with them.

I have to commend you—Mr. Martin, I have got to commend you.

Mr. MARTIN. Thank you, Mr. Martinez.

Mr. WILLIAMS. The matter of the complexities of these forms, whether they be the federal form or the others, are, in part, occasioned by the actions of the Congress. Dallas has just talked about the potential of another series of questions that will be on these forms with regard to drug convictions or other matters, perhaps including patriotism of the applicant. It is ironic, but after ten years in Congress, I am convinced now of the fact that the same members of Congress who wrote these restrictions, are also those who complain most loudly about the complexities of the forms required to fulfill the statutes that they voted for.

Mr. MARTIN. That is correct.

Mr. WILLIAMS. We appreciate the help of the Department and you, Mr. Martin, and your association. Thanks very much for being with us, and your testimony.

Mr. MARTIN. Thank you, Mr. Chairman.

Mr. WILLIAMS. The final panel today consists of four witnesses; Mark Heffron, Donald Stewart, Thomas Wenman and Dick Schwab. Will you please come forward?

Mr. Heffron is the Assistant Vice President of the Operations Division of the American College Testing Program; Mr. Stewart is President of The College Board and is here representing the College Scholarship Service; Mr. Wenman is Director of the MDE Project for the Illinois State Scholarship Commission and is here of course representing that Commission; and Dick Schwab is the Manager of Federal Services for the National Computer Services.

Mr. Heffron, please begin.

STATEMENTS OF MARK HEFFRON, ASSISTANT VICE PRESIDENT, OPERATIONS DIVISION, AMERICAN COLLEGE TESTING PROGRAM; DONALD STEWART, PRESIDENT, THE COLLEGE BOARD; THOMAS WENMAN, DIRECTOR, MDE PROJECT, ILLINOIS STATE SCHOLARSHIP COMMISSION AND DICK SCHWAB, MANAGER OF FEDERAL SERVICES, NATIONAL COMPUTER SERVICES

Mr. HEFFRON. Thank you, Mr. Chairman. I appreciate the opportunity to appear before you. I have given copies of my written testimony to the Committee, and also a paper entitled "Complexity in Student Aid". I believe it speaks to some of the things that you, Mr. Chairman, mentioned just a few minutes ago about the causes of the complexity.

I think we need to look very, very carefully at why the bloody process is so complex now before we go on and try to change it.

I would like to summarize my written testimony and speak to some of the recommendations made by the Advisory Committee. It appears that my letter precedes me, I am glad to see that it has been read.

First, the Committee recommends that the MDE contracts be made Title IV contracts. In that regard, I would note that the delivery system we have right now already integrates all Federal, state and institutional aid. The only change I see from the Advisory Committee recommendations would be a less smooth integration of state and institutional aid and that the Government would have to pay more than it does not—and substantially more.

They have recommended that all MDEs process the Federal form and that the Federal form be the front part of the MDE application. The only reason for it to be the front part of the application is so the student can have a clear place to stop and not pay a fee, before they go on to get additional services and possibly pay fee. From the point of view of forms design, that is bad design. If the student is filling out one form, you ought to make that form logical and clear and rational as possible. If a student is going to have to answer the question anyway, ask it when he is ready for it. "What is your state of legal residence?" Federal question. "How long have you lived there?" State question. They should not be three pages apart. "What is your adjusted gross income?" Federal question. "What are your itemized deductions?" State or institutional question. They should not be three pages apart.

So to make the forms as easy as possible for the student, you ought to design it to be that way, and that does not necessarily

work with the Federal data up front. Doing that subordinates the state and institutional programs and roughly there are $5 million, mostly in grant money, out there, a good deal of it coming from the states that you represent that is good money, good money for those students and students from those states should not find it more difficult than they now do.

A good deal of the complexity that is in the forms now was added in the 1986 Amendment. There is data on there that were required by the 1986 Amendments; the independent student information, dislocated worker, displaced homemakers, base year income data for students, that have added a lot of complexity. That is the cause of a good deal of the complexity. We need to get rid of that cause.

Standardized services that are federally funded, the Committee recommended that. My guess is that the first reaction of institutions would be "Thank, God, for that." Finally some consistency in the process, the form I get from ACT is the same as the form I get CSS, Illinois, whatever. The second reaction I think is going to be a little bit different because they begin to realize that all of a sudden they have absolutely no control over the design of that service, the frequency of that service of how it is provided.

In the past, as has been testified earlier, the Department of Ed has been an unreliable provider of services. Its first concern is what does the Government need, what does the Government want and what does it cost. Its first concern is not will this help schools administer. And I think that history has proven to be a teacher that ED will continue to be under budget considerations and will continue to provide the minimum level of service that is absolutely possible.

Cost. The Committee has suggested that the cost of its recommendations will be negligible. I do not see, just right off the top of my head, how you can assume that roughly $35 million in services now provided by the private agencies can be picked up by the Federal Government with the student paying less and the Government paying no more. It just does not work out.

Right now, as has been mentioned, the Department pays only the marginal cost of MDE. Let me give you an example. We both use name and address. I want it, I have got to have it, they want it, they have to have it. The way it works now, I pay for the cost of the form that collects name and address, I pay for the cost of data entry, they pay for the cost it takes to transmit it to them. They are not paying the full base cost. If they are going to have a free Federal form, they have got to pay that full base cost. Their costs on a unit basis are going to go way up. Most likely what will happen is the services will be drastically cut and schools will suffer unless they can afford to pay some private servicer to replace those services. Where are they going to get the money to do that? They are going to charge students more tuition or something.

I heard conflicting testimony from Jim Craig this morning to what I understood was in the Committee's report. They talked about optimizing services to institutions and students by having more MDEs. Of course, no student or institution appearing before the Advisory Committee recommended more MDEs. In fact, they recommended just the opposite.

If a problem is the current system is numerous and competing forms, how can you solve that problem by having more MDEs with more forms? Because even if they all look the same, they are each going to have their own forms because if nothing else, their supplementary services and fees and data and so forth are going to be different. It is not a matter of the Federal Government printing one form and distributing it nationwide and having 15 MDEs process it. First of all there are about 50 different versions of the forms because we have state agencies, we have institutions, we have other people that want specific data. It is just going to add more forms from which the student must select.

In the final analysis, the students can be well-served only if the institutions can serve them well. That is where the rubber hits the road, that is where the student may find a human being in this financial aid process, not some faceless corporation in Iowa City like mine, but some human being that may be able to listen to their questions. The last few years have been hideous for institutions frankly. The administration of financial aid is terrible, it is horrible. Thousands and thousands of changes. I think before we make any more we are going to make sure they are improvements, not just changes. I think what would help almost everybody would be a little bit of stability in the process so that what you learned last year is behind you and you can get a little better at what you do this year.

Thank you. I would be happy to respond to any questions.

[The prepared statement of Mark Heffron follows:]

TESTIMONY BEFORE THE
HOUSE POSTSECONDARY EDUCATION SUBCOMMITTEE

by Mark Heffron
The American College Testing Program

Missoula, Montana
September 24, 1988

My name is Mark Heffron. I am Assistant Vice President for Financial Aid Services for the American College Testing Program. ACT is a not-for-profit educational services corporation with national headquarters in Iowa City, Iowa. The ACT Student Need Analysis Service processes financial aid applications for over 1.3 million students annually and has been a Multiple Data Entry contractor since the inception of the MDE process. I appreciate the opportunity to appear before you.

Attached to my written testimony is a paper entitled "Complexity in Student Financial Aid." This paper identifies some of the causes of the complexity in student financial aid delivery today. It is important that we understand why the system is complex before we make moves intended to simplify it. Too often in the past, solutions intended to simplify the process have instead added to the complexity. As someone once said, "For every complex problem, there is a simple solution...and it is always a bad solution." So it is with student aid.

I have been asked to comment on the recommendations advanced by the Advisory Committee on Student Financial Assistance regarding the Multiple Data Entry process. The Committee's recommendations cover such a tremendous breadth of territory that no written or verbal testimony of any reasonable length could begin to assess the potential impact. I will, however, address some of the major points outlined in Chairman Williams' letter of invitation.

The Committee has recommended sweeping changes in the student aid delivery system without, we believe, an adequate examination of the current system or sufficient consideration of the impact of its recommendations on students and institutions. Its assessment of the cost of the recommendations is unrealistic.

The Committee has recommended that current MDE forms, which now integrate the data needed for Title IV, state, and institutional aid application be replaced by a common federal form

to which may be appended the data needed for state and institutional aid application purposes. The only purpose for having a standardized federal application up front on all forms appears to be that it provides a point at which the student may stop (and pay no fee) if only federal aid is desired. To the Committee, this evidently outweighs the consideration that forcing state and institutional data needs to the end of the form will result in an illogical flow of data, making the form more difficult for the student to complete. It is unknown how many students will inadvertently miss out on state or institutional aid by stopping too soon on the form. [Early figures showed that roughly 6% of federal form filers made a similar error on the 1988-89 AFSA form.] States and institutions provide about $5 billion in student aid each year, primarily in the form of grants. A system which relegates these programs to a subordinate position, and makes their application process more difficult, is not an improvement.

None of the Committee's form recommendations deal with the complexity of the current forms. Forms have become significantly more complex recently to accommodate the requirements of the Higher Education Amendments of 1986. The new independent student definition, and the provisions for dislocated workers and displaced homemakers have added two dozen difficult questions to the form. Federalizing the design of all forms will do nothing to address these problems or ease the complexity.

Another Committee recommendation is that the federal data output from all MDE agencies be standardized and that reports of that data to schools be paid for by the federal government. We suspect that the initial reaction of most schools to this recommendation will be positive. Any consistency that can be found in the process is desirable. We also suspect, however, that institutions will reconsider their initial reaction when they find they have no influence over the design, frequency, or comprehensiveness of the output. With ED paying for the output, ED will specify what it will look like, and how and when it will be delivered. The important consideration will be the cost to the government and whether it suits government purposes, not whether it meets the needs of schools. Although different schools have different needs, they may instead have to accept a common degree of mediocrity in services. There is a reason why fewer institutions use the federal form each year, and more opt to use the private need analysis agencies.

The Committee recommendation that institutions must accept the output of any MDE agency further complicates the administration of student aid on campus. Although most institutions

now will accept the output of different agencies, forcing them to accept the output of all agencies removes any control they have to refuse use of agencies with particularly bad service or which mislead students. Since different agencies may append different data to their form, a school can not be assured of receiving the data it needs for every student. This provision will also encourage MDE agencies to market their forms to students rather than concentrating on providing service to institutions. Students are not in a position to select among competing forms, nor should they need to be.

The Committee seriously underestimates the cost of its recommendations. Although we have not seen the cost analysis, if any, from which it concluded that the cost "likely will be negligible", even a surface look indicates that this is not true. Does the Committee really believe that roughly $35 million in "service...modeled after the current reporting and support relationship that exists between the need analysis services, students, and institutions" can be maintained while students pay less and the federal government pays no more than it does now? Currently, MDE agencies are compensated by ED for the costs they incur above and beyond their resident service; MDE is an add-on to that service and even the highest MDE fee is a bargain compared to what it costs the government to collect data on its own AFSA form. If agencies are to process a free federal form and append their own services, then ED must bear the base cost. The "increased competition" the Committee seems to value so highly will not reduce government costs unless MDE agencies subsidize federal processing with the revenue from other activities. They can afford to do so only if MDE allows them to earn more in these activities, a situation leading to a potential conflict of interest. The actual total cost of processing an original form is in the range of $4-$5 when all facets are included. The private need analysis services expend an additional amount of at least $4 per student in providing student information, institutional services, training, research, consultation, etc. Maintaining current service levels of the private need analysis services, as the Committee suggests, would cost ED in the range of $35 million more each year. If the government has this type of funding to devote to administrative expense, we suggest that it would be more effectively spent if targeted to needy students in areas such as the TRIO programs rather than spread thinly by subsidizing form processing costs for all students. Although not, perhaps, philosophically ideal, it would be a more effective use of resources.

We are surprised that the Committee did not address the issue

of potential conflict of interest for some organizations that have expressed an interest in becoming MDE agencies. Some service companies now collect "loan referral" fees from lenders, and guarantors collect a 1% administrative cost allowance from the government plus a guarantee fee up to 3% from the student. All of these funds may be used for administrative purposes. At $15 to $300 per student, these fees dwarf any actual or potential MDE reimbursement and make it quite lucrative for such organizations if the student accepts a loan. It would indeed be ironic if "free" form processing were to be made possible by an increase in guarantee fees paid by students who are needy enough to qualify for Stafford Loans. Is it in the best interest of students for such organizations to be involved in the determination of student need?

Why does the Committee recommend expanding the number of MDEs to a level that "optimizes services to students and institutions" when no student or institution appearing before it recommended an increase in the number of MDE agencies? In fact, the opposite is true. Institutions evidently find the current service offerings to be adequate. More MDEs will mean more "numerous and competing forms", a situation the Committee finds damaging in the current system. Additionally, ED's cost of administering MDE contracts will increase as the number of agencies increases.

We see nothing inherently wrong with the process now employed by ED in determining MDE compensation, if it is applied equally to all parties. Nor would we see anything unreasonable in the government paying the same amount to each agency for the same services. MDE agencies should be reimbursed for systems and other development costs incurred as a result of ED-required MDE tasks. They should not be reimbursed for any development costs associated with their proprietary programs. Forms development costs are no different than any other in this regard.

In summary, the Committee seems to have taken the course of supporting particular philosophies of operation without consideration of the true impact of those directions and without even determining that these are the cause of the problems in student aid today. It is a perfectly valid philosophy to believe that students should not have to pay a fee to cover a portion of the cost of considering them for financial assistance. Implementation of that philosophy is expensive, however. Many services will be lost, federal costs will increase markedly, and most students will receive only a cosmetic benefit. The worst scenario would be for

private firms to be precluded from providing the services because they aren't allowed to collect the revenue to do so and for the government to drop the services because it can't afford them.

The Committee has picked up a 15-year suggestion of the financial aid community by recommending that Pell Grants be delivered by the private need analysis services. They have failed to understand why the community has made this recommendation, however. It is not that colleges are enamored with companies like ACT per se. After all, even when ACT was the Pell central processor, people were recommending the demise of this function. Rather, financial aid administrators like the services and responsiveness of the companies in anticipating and meeting their needs. The Committee, however, has recommended standardizing the services of these companies and having them funded by the federal government. In this situation, the services operating under contract will only be able to respond as a government contractor. If ED pays the bills, ED will determine the service, and institutions will lose even more control over their administrative efficiency.

In the final analysis, students will be well served only if institutions are able to cope with the student aid delivery system and serve them well. It is here that students come into contact with humans in the system. It is here that the results of formulas may be modified to fit real people. It is here that students get the funds they need when they need it, or too little too late. It does not matter how sophisticated or integrated or philosophically pure the system is, if institutions cannot administer it properly, students will suffer. The past several years have been terrible for financial aid administrators. Literally thousands of changes have been imposed upon them, many with no apparent benefit. The Committee is recommending a massive further change to the delivery system which will have very massive impact on institutions once again. We believe that it is time to stop making disruptive changes to the delivery system until the current problems have been studied, the causes identified, and action take to eliminate the cause.

Thank you. I will be happy to respond to questions.

COMPLEXITY IN STUDENT FINANCIAL AID

Problems for Students, Parents and Financial Aid Administrators

Mark Heffron
The American College Testing Program
July 1988

COMPLEXITY IN STUDENT FINANCIAL AID

Problems for Students, Parents and Financial Aid Administrators

That financial aid is complex is almost a truism. The situation did not arrive overnight as the result of some cataclysmic event; rather, it has come about slowly and steadily. The complexity and confusion affects all parties to the process --- students, parents, institutions, agencies, and the government.

The traditional concept of a good college financial aid operation is one that works individually with students to determine how they can finance their college education. The idea is to find a reasonable mix of family funds and student aid funds to cover educational costs. The good financial aid administrator will recognize that, while formulas are handy guidelines, people are very different from one another and need accommodation for their special circumstances. The good financial aid administrator will also want to ensure that the student understands his or her rights and responsibilities. When one deals with family finances, one deals with a very personal part of people's lives; it deserves to be handled with care and respect. The sensitivity, courtesy, and timeliness of an institution's response to an applicant's request for aid may well determine a strong positive or negative first impression of the school.

In this day and age, very few financial aid offices are able to operate under the traditional concept. Because so many other requirements have been added to the administration of student aid, carefully counseling students, understanding their individual circumstances, and tailoring individual aid packages to meet their needs may be many layers down on the office's "To Do" list. Individually explaining students' rights and responsibilities may be even further down the list. The requirements that complicate financial aid administration have been added primarily for negative reasons. They are intended to curb loan defaults, to protect students from unscrupulous schools, to protect taxpayers from unscrupulous students, to protect the government from unscrupulous financial aid administrators, etc.

We have finally reached the point where all parties agree that the system of financial aid we have is needlessly complex. We all agree that this complexity is detrimental to the goal of removing financial barriers for needy students. We also have total agreement that the complexity is due to the requirements imposed by the other parties. The marvelous thing is that we are all correct in our assessment.

As a starting point in determining how to simplify the financial aid process, it is useful to identify the reasons for the complexity. Complexity in the system derives from five major areas: program criteria; forms and formulas; fraud and abuse prevention efforts; default prevention efforts; and matters that are related to student aid in only a peripheral manner. This paper will address each of these areas individually. It should be understood that no single factor can be held responsible for the complexity; rather, it is the aggregation of hundreds of requirements and features. It should also be understood that complexity for any party in the process causes complexity for all the other parties. The issues themselves are extremely complex with many different factors to be considered. This paper can only scratch the surface.

Complexity in Program Criteria

Program criteria are those laws and regulations that describe financial aid programs, who is eligible, what the maximum and minimums are, and other factors affecting the award. The primary complexity added to the system by program criteria results from the constant change in these criteria. What one learned last year or with the last child in college, probably is no longer true. High school counselors, admissions personnel, and even financial aid administrators get confused about whether a particular rule applies this year, last year, or next year or whether it was merely proposed and never implemented. If criteria cannot be easily and accurately explained, they cannot be understood. As a result, the learning curve for students and the public is very slow.

For example, in the Stafford Student Loan Program (How many will be confused by the name change? Do continuing students have both a GSL and a Stafford, or only a Stafford Student Loan) students may have an interest rate of 7%, 8%, 9%, or 8% and 10%, depending on when they took their first loan. The maximums have changed from $2500/year for undergraduates and $5000/year for graduates to $2625/year for the first two undergraduate years, $4000/year thereafter for undergraduates, and $7500 for graduates. Because of origination fees and guarantee fees, however, the student will never receive the maximum amount, so knowing it is somewhat of an academic exercise. In the past ten years, we have gone from automatic eligibility for all; to 100% eligibility for those with family adjusted gross income (parents' and/or student's) under $30,001 and a need basis for others; to a need basis for all. Need has been determined by one or more of the following formulas: Uniform Methodology and variations thereon, Pell Grant SAI formula, GSL look-up tables, income tax method, and the Congressional Methodology. This description understates the amount of

change in the GSL program. Other federal financial aid programs have also undergone numerous changes. Is it any wonder that people are confused?

Complexity in Forms and Formulas

For many members of Congress and their staff, and for students and parents, the primary focus of the complexity in student aid is the financial aid application form itself. Legislators hear from constituents that financial aid is confusing, look at how many questions or pages the forms contain, and conclude that if there were fewer questions, the process would be simpler. They are right. They further conclude that, if the need analysis formulas were simpler, fewer items of data would have to be collected. Again, they are right. They figure that if there were a common federal form to be used only to apply for federal aid (without worrying about state and institutional aid), it could be simpler than the current forms. Once more, they are probably right.

The flaws in the above chain of logic are numerous, though not necessarily obvious. First, appealing though a simpler analysis is, it is less sensitive to family financial circumstances than is the current analysis and far more expensive to fund. And, though it is the needy with whom we're ostensibly concerned, the most common approach to need analysis simplification is to eliminate consideration of assets. Since the poor tend to have no assets, the questions about them are not difficult to answer (enter zero) and there is no financial advantage to their elimination. To the more affluent, however, the elimination of assets not only decreases the difficulty of the application (What is the total market value of your fifty different investments?) but it also is a substantial financial benefit since a portion of their financial strength is ignored. One can compensate for the loss of assets by significantly increasing the taxation on income, but the impact of that is uneven and the required assessment rates so high that they would not, politically, stand for long. Thus, the simple analysis is most beneficial to those who need help the least and simplifies the process for those who are most capable of completing it. To be accepted, a need analysis formula must appear logical to the public. Is it logical to ignore a substantial trust fund or the funds a family has saved to send a child to college?

The suggestion that a common application only for federal aid be implemented has a ring of deja vu to it. Prior to 1978, when the Multiple Data Entry process was implemented, such a form existed. Students then had to complete separate forms for the Basic Grant Program, for state-funded aid, and for campus-based and institutional programs. Much redundant

data were supplied on these forms and students never could be sure that they'd applied for everything. Although the federal government is the largest single donor of funds, state and institutional aid, at $5 billion per year, adds up to more than the current funding of the Pell Grant Program. Students can now apply for nearly all sources of aid with a single application form, and will be considered even if they are unaware of the existence of a particular program. Admittedly, because this form covers a myriad of programs, it is more complex than a single program or federal aid only form would likely be. Most would agree, however, that the single comprehensive form provides a simpler process for students than would reverting to numerous application forms for different programs. Merely appending state and institutional data needs onto the end of a federal form is no solution as the sequence of collection of data may not be logical and, thus, more complex than it need be.

There is a misconception that the majority of information collected on the form is required to operate the need analysis and Pell Grant formulas. The breakdown of data collected by current need analysis forms, however, is roughly as follows: student identification (8%); dependency status determination (10%); financial and demographic data used in the regular need analysis and Pell formulas (35%); financial and demographic data used only in special formulas (16%); information used to determine program eligibility (18%); and data for other uses such as verification (13%).

The current Congressional Methodology (CM) need analysis and Pell Grant Student Aid Index formulas can be simplified without losing their sensitivity. In an attempt to help certain segments of the population, Congress specified special treatment for dislocated workers and displaced homemakers. Additionally, they mandated a simple analysis for low income applicants. These variations increased the number of distinct calculations in both the CM and Pell formulas from four to twenty-four or more, depending on how one counts them. The dislocated worker and displaced homemaker analyses impact a very small portion of the population while adding confusion for others. It is not easy for applicants to determine if they qualify for the simple analysis and nearly impossible to tell whether it will help or hurt them, or make no difference at all. The special variations in the analyses for dislocated workers and displaced homemakers should be eliminated since they impact only about 4% of the filing population. The special needs of these populations can be accommodated by financial aid administrators as are other groups whose financial circumstances have changed. Eliminating these special analyses would decrease the length of the form by

16%. The simple analysis should be altered so that it never works to a family's disadvantage; its use should be restricted to populations who can easily and accurately identify themselves.

The dependency status determination not only accounts for about 10% of the questions on current forms but will require additional questions each year. The questions are confusing to students since the line of logic is not always apparent.

Amid the cry for simplification, Congress may be about to add even more complexity to the forms and formulas. Legislation has been introduced to separate the collection of liquid and non-liquid assets, to exclude student assets saved from prior year income, and to include parents in the number in college only if they are pursuing a degree or certificate program. Each of these changes is in response to requests from financial aid administrators to correct some perceived inequity in the formula. Each of these changes will either add questions to the form and/or make the instructions longer and more complex.

Complexity from Fraud and Abuse Prevention Efforts
A number of provisions have been added to the law or implemented in regulations to increase the chances of students making informed choices about colleges and to improve the accuracy of the information upon which financial aid awards are based.

Responding to stories of students making college choices based upon incomplete or inaccurate data about the college, Congress mandated that certain types of information be disseminated to all current and prospective students. The Higher Education Act prescribes eleven different types of information that institutions must provide to all current and prospective students regarding the institution, its physical facilities, academic programs, and faculty, its accreditation and how a student may get copies of the documents describing same, its costs and refund policies, its academic standards and what the student must do to be considered making satisfactory progress, its special facilities and services available to handicapped students, and the types of student financial aid available, methods for its distribution, and means of application. To this list we may soon have to add information on the success rate of prior students and employment rates for graduates of various programs. While there is no doubt that such information is useful to some students, for most students at most colleges it is extraneous to any financial aid decisions and may divert them from thoroughly understanding the most vital basic facts. Preparing this information and assuring its availability to

all students consumes the time of the financial aid office that might have been directed toward helping students figure out how they can finance their education.

Quality control studies in the late 1970s showed that millions of dollars in Pell Grant funds were being misawarded because of errors in the data provided by students or because of errors committed by institutions. Although the methods employed in the study and the magnitude of the resulting error might be questioned, there was no doubt that a major problem existed. In response, the U.S. Department of Education implemented requirements that institutions verify selected student information to improve the basis for Pell Grant awards. Over the years, a number of different "validation" or "verification" procedures have been mandated.

The constant change in verification requirements has been confusing for both schools and students since neither is sure what to expect from one year to the next. Long delays in awarding are experienced, often when the "validated" data proves to be originally correct or causes no change in the award. Again, financial aid administrators find their time consumed, not by activities that have a positive impact on students, but rather by policing tasks. Despite all of the effort and expense, subsequent quality control studies show precious little improvement in data accuracy.

Complexity from Default Prevention Efforts

One of the hottest topics in student aid today is the issue of loan defaults. The rapid expansion in loan availability in the late 1970s, the active marketing of loans to families, and the decreasing purchasing power of grant funds, which has forced more low-income students to borrow, all have contributed to the increasing default rate. Stories of deadbeat doctors and red Corvettes are popular but, in reality, the majority of defaulters are students who either did not realize they were borrowing, or who did not get any value from their educational investment, or who simply do not have the income to repay a loan. For political reasons, the problem has been advertised, emphasized, and, to some extent, exaggerated.

To protect students from unnecessary debt and assure they understand their responsibilities for repayment, the Higher Education Act lists thirteen areas of information that must be given to the student each year before disbursement of a Perkins Loan. Lenders must give similar information to borrowers of Stafford Student Loans.

The only loans for which a truly simple application process exists are PLUS and SLS loans. Neither is need-based and

only minimal information is required. Situations have evidently existed where, because their delivery was so fast and easy and the amount available normally larger, some schools have encouraged students to take these loans rather than apply for lower-interest Stafford Student Loans and Pell Grants. Concerned about potential defaults from overborrowing in these programs, Congress will probably require students to apply for a Pell Grant and a Stafford Student Loan before they can be considered for SLS or PLUS. So much for a simple process!

Complexity from Peripheral Matters

Congress has tacked a number of requirements onto financial aid programs that have nothing to do with the distribution of student aid but rather are intended to satisfy someone's moral indignation or, perhaps, gain a few political points. Included are such things as requiring men of a certain age to be registered with the Selective Service before getting federal aid, requiring eligible institutions to have drug abuse prevention programs, checking citizenship status prior to employing students, crosschecking alien status with the Immigration and Naturalization Service, and, potentially, prohibiting aid to those with drug convictions.

Although, in most cases, the actual processes required of schools to implement these requirements are no longer burdensome, they do represent just one more thing to keep track of, several more questions and instructions on the forms, another distraction from the primary objective, and more confusion. Although each of these activities may serve some public purpose, all of them divert institutional time from delivering aid to students, and none have any positive impact on needy students.

Solutions

It is, of course, far easier to identify the problems than to develop solutions. Each of the factors that adds complexity to the process is there for a reason. Most of the reasons are valid, at least in some circumstances.

Simplification in program criteria is most easily accomplished by leaving programs unchanged for a period of years. Families, counselors, and financial aid administrators can then devote their efforts to expanding their knowledge of the process rather than relearning program criteria at frequent intervals.

Simplification in forms and formulas can be improved in several ways. Congress must resist the temptation to continually modify the analyses to cover every possible situation and potential inequity. Such "solutions" for the

few cause problems and confusion for the majority. Simpler forms should be devised for those populations that are easily identified as having minimal resources, such as those who have already gone through a welfare program needs test. Further, it is crucial that outreach programs, such as Talent Search, Upward Bound, and Special Services be adequately funded to ensure that the needy get into the system. Each new requirement must be evaluated to ensure that more is gained than lost by its addition.

Stability will also reduce the complexity caused by fraud and abuse prevention efforts. Systems of data checking that schools have developed can be refined and used, rather than constantly being revised. It is very unlikely that the majority of error in the system is intentional fraud or abuse. As students and schools are better able to navigate the process, they will make fewer errors.

Loan defaults will continue to be a problem, no matter what other steps are taken, as long as loans are a primary method of financing the education of low-income high-risk students. The unemployed cannot repay loans; the unsuccessful are unlikely to be so inclined.

Sooner or later, Congress must realize that, despite the moral grounds, more is lost than gained by trying to tie everything the federal government does together. Denial of student aid should not be a secondary punishment for those who have violated other provisions of the criminal code, particularly in the absence of evidence of substantial abuse by students. It is not prudent to add complexity for everyone in the hope of punishing a minuscule portion of the population that has violated an unrelated law.

If history is any teacher, the student aid delivery process will always be complex. Political and budgetary considerations will keep it so. Politicians will respond to their constituents and to pressure groups by changing this or that; these changes will add to the complexity. The cry will continue for simplicity. Simplicity costs money and, with the budget crisis, adequate additional funding is unlikely. Thus, new criteria will be added and changes made to save money. Ergo, more complexity.

When one discovers a problem, the first reaction is always to do something to fix it. Perhaps, with student aid, the best fix would be to do nothing for a while and see if stability isn't the best cure.

Mark Heffron
The American College Testing Program
July 1988

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Mr. WILLIAMS. Thank you. Mr. Stewart.

Mr. STEWART. Mr. Chairman, members of the Committee, thank you very much. I am very pleased to be here today to represent The College Board and to respond to your request for our views on the recommendations of the Advisory Committee on Student Financial Assistance regarding multiple data entry, MDE.

By way of background, let me also mention that I am a father of two college-aged sons and I have dealt with the form and it is overly complicated. Also, by way of background, let me note that before becoming President of the College Board a year and a half ago, I served ten years as President of Spelman College in Atlanta, Georgia. Spelman is an historically black college for women. And there, I saw firsthand the impact of financial aid in helping students, many of them from extremely poor backgrounds, to realize their educational aspirations. At Spelman, I also saw how hard our financial aid staff worked to treat each individual in as timely, equitable and sensitive a fashion as possible. Financial aid officers have tough jobs and they do them well.

The College Board, which I now head, is a voluntary association of more than 2600 schools, college and agencies, all committed to facilitating the transition of students from high school to college and beyond.

In our highly diverse, pluralistic, decentralized American system of education, The College Board has existed for 88 years to help to do on a voluntary basis what in countries with centralized systems of education, that is, ministries of education, is usually done by government.

The College Scholarship Service, often known by its initials CSS, is an association within the College Board that provides financial aid services annually to over three million students, 40 states and several thousand postsecondary institutions.

Mr. Chairman, in the few minutes available to me this morning, I would like to summarize for you and your Committee some important points from my written statement, the statement which you have. First let me acknowledge the concern we all have about many of the issues the Advisory Committee has addressed. There are a number of things in the Committee's report that we endorse wholeheartedly. Not only do we support the concept of Title IV-wide delivery, but we have already been at work on many fronts to make that goal a reality. We also support the early financial aid guidance for junior high school students, but note that such information needs to be integrated with good academic advising if it is to be effective.

Other aspects of the Advisory Committee's recommendations, especially its draft legislative language, raise serious concern in our minds and what troubles me most in this context is that I believe we share a common objective, one that surrounds all these issues and that is, how can we make this process simpler for the student.

Permit me therefore, just a few words about this important topic and its relationship to the Advisory Committee's recommendations. Obviously no one can be satisfied with the complexity of the current process and intricacies of the application forms students and parents must complete. But in trying to make things simpler, there are two points I suggest we consider.

First, the current system, despite all its problems and flaws, allows a student to apply for virtually all types of aid; Federal, state and institutional, by a single form. Working with the Department of Education it took us a long time to achieve that, it serves students well and we hope that it will not be taken away from them.

Second, the current system is a practical accommodation to the reality of existing Federal, state and institutional data requirements. Ultimately we cannot simplify the system until we have addressed these demands for data. And I think Dallas Martin dramatized well this dilemma. If we are truly serious about simplifying the application, therefore, it is going to take tough-minded rethinking of our overlapping data needs. As you can see from the color-coded FAF attached to my written statement—and I saw some of you looking at it earlier—more than two thirds of the data elements are derived from Federal requirements. Many of them, as has been already said, are not related to determining financial need at all. While that is one place to start in seeking to simplify the data elements, we need to strike a careful balance.

To ask for too little information results in more well-to-do applicants receiving funds intended for the neediest students while too much information may interfere with particularly poor and disadvantaged students.

CSS is preparing to pilot a special short form for the neediest students in California right now, and a model or a copy of that is attached to my statement as well. Given the competing demands, however, I suggest that we look beyond forms to the fundamental data requirements themselves, and to consider drastic simplification for the poorest students.

Perhaps we need some type of automatic eligibility for certain applicants. For example, AFDC recipients have already proven their need, and other types of families are so poor that they have virtually no capacity to contribute. We suggest that one approach to simplification might be a way—might be to find a way of providing such families with automatic or instant eligibility, saving our application forms for the students where there are true differences in ability to pay.

We suggest, therefore, that the Congress ask the Advisory Committee to complete its work on simplification before addressing these MDE issues, and we offer our help in that agenda. We want to work with the Committee and the Congress in any way that we can be helpful.

Mr. Chairman, with respect to many of the specific MDE issues themselves, the Advisory Committee and the College Board do have fundamentally different views. We disagree with the notion of a common form as currently defined by the Committee. The College Board believes, as ACT does, that an integrated form like the one we use is easier for parents and students to complete and increases the possibility that students will receive all the support from all sources for which they are qualified. And an integrated form is in fact a common form in the true sense of the word.

Two, the Advisory Committee in its legislative language recommends federalizing the entire application process, standardizing it, giving the Secretary enormous power to determine the design, pro-

cedures and timing. We believe that will produce confusion and fragmentation, harming the very students we are trying to serve. Such a step will also inhibit innovation and improvement in the delivery system by forcing all the MDEs into a common mold. Plus, Mr. Chairman, the Secretary is not and should not be a minister of education.

Third, we share in the desire to have a financial aid system that operates at the lowest possible cost to the student and to the taxpayer, but the cost of processing is never free and the issue becomes how to allocate the cost between students and the taxpayers in a fair and equitable manner. It seems to us unlikely that the Federal Government will underwrite the full cost of processing. In fact, the Department of Education has made it abundantly clear that it does not intend to and cannot do so. Therefore, some type of student fee remains the alternative. Ideally, however, some students should not be charged a fee at all, and for them CSS recommends consideration of fee waivers and fee waiver programs, which we now offer in fact, and retention of the Federal free application.

Mr. Chairman, in summary, I think it fair to say that the Advisory Committee has to work against a very tight schedule, but that many issues remain unresolved. We believe more time and public discussion are needed before making such major changes to our country's financial aid delivery system.

Moreover, we believe that such debate should occur in a context of simplification. Let us redesign the system in a comprehensive, holistic manner, keeping the interests of the student paramount.

Finally, with regard to the more narrow MDE contracting issues, we believe that our own proposal provides some useful guidance and hope that it will receive further consideration. While the current system is not perfect, it offers several advantages, not the least of which is the notion that a student should be able to apply for all forms of aid using a single form. Before tampering with that structure, let us be certain that what we put in its place is truly an improvement.

I thank you, Mr. Chairman, very much for giving me this opportunity to testify.

[Additional material submitted by Mr. Stewart is retained in subcommittee files.]

[The prepared statement of Donald M. Stewart follows:]

Testimony

on

Student Aid Delivery

before the

Subcommittee on Postsecondary Education
Committee on Education and Labor
U.S. House of Representatives

Donald M. Stewart
President
The College Board

September 24, 1988
Missoula, Montana

Mr. Chairman, I am pleased to be here today to respond to your request for views on the recommendations of the Advisory Committee on Student Financial Assistance regarding multiple data entry processing (MDE).

My colleagues and I wish to help in any way we can to unravel the complicated technical and contractual questions of MDE. At the same time I believe it is important to address these issues in the broad perspective of how public and private agencies can work together to deliver aid to students most effectively.

Frankly, I am greatly concerned that the recommendations of the Advisory Committee, particularly as embodied in the legislative language it has offered to the Congress, would go much too far in federalizing--thereby fragmenting--the delivery system and giving the Secretary of Education too much discretion in its design. I am concerned that students who must apply for both federal and non-federal aid to finance their education would not be well served by such a system, and would lose educational opportunities as a result.

Let me begin with a word about my background and the organization I represent. Before joining the College Board last year, I served ten years as president of Spelman College, the century-old, private historically black women's college in Atlanta, Georgia. At Spelman I dealt first-hand with the challenge of providing quality higher education to young people, many of them coming from disadvantaged backgrounds and requiring the maximum amount of financial assistance that Spelman could muster from every possible source--the federal government, state governments, private organizations, and the colleges' own coffers. I witnessed the impact of financial aid in helping students realize their educational aspirations. I also saw what it took for our campus financial aid staff to assemble the pieces of the "package" for each individual student in as timely, equitable, and sensitive a fashion as possible--and this is not an easy job.

The College Board is a voluntary association of more than 2500 schools, colleges, state agencies, and educational organizations. Since its founding in 1900, the College Board has been committed to helping students make the transition from high school to college.

The College Scholarship Service, or CSS, was founded in 1954 by members of the College Board who sought agreement on common practices and standards for awarding scholarships and other forms of aid to their students. It came into being at a time when the federal government had yet to undertake a major commitment to need-based student aid and only a few states had started such programs. Today CSS is an association within the College Board that provides services to over 40 states, several thousand postsecondary institutions, and nearly 3 million students annually.

In the past 35 years, student aid has grown dramatically, especially as a result of major investments by federal and state governments. CSS has throughout this period sought to work in partnership with government and

other agencies to improve the delivery system for students. Beginning in the mid-1970s all parties in the financial aid process recognized the need for stronger coordination. Forms, eligibility standards, and need analysis methodologies had proliferated, creating widespread confusion and frustration. CSS was a leader in convening the National Task Force on Student Aid Problems, chaired by Francis Keppel, former U.S. Commissioner of Education, and CSS was the first organization to implement that Task Force's recommendation for adoption of a common form by which students could apply for all types of assistance. CSS has continued to support that concept and the resulting multiple data entry, or MDE, system.

The reforms that came out of the Keppel Task Force ten years ago did not solve all of the problems of the delivery system; indeed, we are still wrestling with the same problems today. But the mechanism of MDE has made it possible for the great majority of students to use one form to qualify for federal, state, and institutional funds.

MDE can certainly be improved. But the Advisory Committee and the College Board have fundamentally different views about how to address the underlying issues. In summary:

- o The Advisory Committee seems to believe that the best way to simplify the forms is to disaggregate the federal data elements from the rest and force supplementary data elements required by states, institutions, and private programs to supplementary forms. The College Board believes that an integrated form is easier for students and parents to complete, and, further, that some classes of students, such as AFDC recipients, should be able to establish eligibility on a virtually automatic basis.

- o The Advisory Committee, in its effort to simplify the application process, would federalize it, requiring non-federal partners to either submit to the standards and timetable that the Secretary stipulates or create their own forms, procedures, and calendars. The College Board believes that would produce confusion--that we should be working towards greater integration, not fragmentation, of the delivery system.

- o The Advisory Committee seems to believe that if students are not paying front-end application fees, the process is "free." The College Board believes that in an era of budgetary austerity, the federal government can't or won't fully subsidize the process, and that the real question is two-fold: how to apportion the costs between the applicant and the taxpayer most fairly, and how to insure that such applicant fees as may be necessary are not an unreasonable barrier.

- o The Advisory Committee urges that its proposals can and should be enacted right away. The College Board believes that wider discussion of these and other proposals (including the College Board's own) might generate more innovative, far-reaching, systemic solutions, and would almost certainly insure wider acceptability and smoother implementation in the long run.

Before turning in more detail to the Advisory Committee's specific recommendations, I want to say a few words about the things we all perhaps need to consider if we are really serious about simplifying the system.

APPLICATION FORMS AND THE GOAL OF SIMPLIFICATION

No one can be satisfied with the complexity of the process and the intricacy of application forms students and parents must fill out. But the current system is a practical accommodation to the reality of existing federal, state, and institutional data collection requirements for establishing student need and eligibility.

Let me illustrate how CSS tries to integrate all of these requirements on a single form. Attached to my statement is a color-coded CSS Financial Aid Form (FAF) that indicates the derivation of each data element--why it is included on the form.

- The blue-coded items--more than 60 per cent of all questions on the form--are dictated by federal rules. The Department of Education requires all MDE agencies to collect and process the blue items, one way or another, to establish applicants' eligibility under various Title IV programs and compute need according to the Congressional Methodology or the Pell Family Contribution Schedule.

- The violet-coded questions--at 7 per cent--are additional items that are related to federal program administration, but not required as an MDE rule. CSS and its users believe that students are better served if such information is collected on a single document like the FAF at the point of initial application, rather than separately at a later point in the process.

- The orange items, comprising 11 per cent, are required by state scholarship and loan agencies.

- The remaining 21 percent, in yellow, are questions designed to support program administration at the institutional level and enable the aid administrator to exercise professional judgment in individual cases--a practice that the Congress itself encourages under Section 479A of the Higher Education Act.

CSS continues to refine the FAF--to pare down the number of questions, to express them as clearly and unambiguously as possible, to group and sequence items as logically as possible from the point of view of the student or parent filling it out. The FAF is hardly perfect, but it has been carefully designed with the advice of students and parents, secondary school counselors, and financial aid administrators, and it does the essential job of reconciling the diverse requirements imposed by current federal and non-federal programs.

But nobody would seriously call it, or any other need-analysis form available today, "simple."

I am also attaching to my testimony a copy of the "low-income" form that the College Board will start pilot-testing in California early next

year. Alone among the MDE agencies, CSS created this form to reflect the intent of Congress in enacting the "simplified needs test" provision of the Higher Education Amendments of 1986, and is fully committed to exploring its potential in a variety of settings. We worked hard on this form, too, but it's not very simple-looking, either, because the minimum data set specified in statute is still complex.

The complexity of the forms could be reduced by dramatically cutting the amount of data required of students. One problem is that, as I've indicated above, more than two-thirds of such data are already federally required or related. Moreover, federal requirements seem to be expanding, not contracting. No amount of creative forms design by CSS or other service agencies can offset the sheer weight of current data requirements--nor will any recommendation so far presented by the Advisory Committee on Student Financial Assistance.

If we really want to simplify the forms, it's going to take some tough-minded rethinking of data needs. For starters, we could look at data collection that may be unrelated to determining applicants' financial need, but which has been loaded onto application forms because of extraneous legislative requirements. Selective Service registration compliance is an example. Legislation pending right now may add still more complexity to the process. The drug bill before Congress would cut off federal student aid to convicted drug offenders. Without addressing the merits or demerits of such a proposal in dealing with the country's drug problem, we can be sure of one thing--if passed, the legislation will require adding a new set of questions to student aid application forms to make sure that the prohibition is enforced.

Beyond that, we have to weigh some fundamental trade-offs. The population served by student aid programs is very broad, encompassing both poor students of the most modest family financial circumstances and those of middle-class standing whose situation may be much more involved. A system optimized to the circumstances of either end of the spectrum may hurt poor students the most:

- o If too little information is required, well-to-do applicants not intended to receive aid may slip through and become eligible, claiming scarce funds that should go to needier students.

- o If too much information is required, which is perhaps the case now, poor and disadvantaged students and their parents may be intimidated by the process or simply unable to fill out the necessary forms.

That leads me to suggest that it is time to look beyond forms to the data requirements themselves--to other possible devices that might be used for establishing virtually automatic eligibility status for certain classes of students.

For example, recipients of AFDC benefits have already proven their need. (That's why CSS proposed a "bingo" question that would automatically shunt AFDC filers past complicated--and essentially unnecesary--income questions on its forms. The Department of Education did not, however,

believe it had the authority to approve such an approach.) It might also be possible to demonstrate, through research, that families at or below certain income levels have virtually no capacity to contribute toward education expenses and can thus also be granted "automatic" eligibility.

The College Board will continue its own efforts to simplify its forms, but is also prepared to support the Advisory Committee in taking a look at this more far-reaching concept of simplification and how it might best be achieved--through better information and training, reduced data requirements and streamlined forms, and any other appropriate means.

RECOMMENDATIONS OF THE THE ADVISORY COMMITTEE

Let me turn now to the recommendations presented by the Advisory Committee in its recent report and in legislative language it has prepared for Congress. College Board staff have already communicated many of our views to the Advisory Committee, CSS Executive Director Hal Higginbotham testified at the Advisory Committee's July hearing on MDE questions in Denver, and we have had much informal and constructive exchange with the Advisory Committee on delivery system issues.

There is much in the Committee's report that we can fully endorse. We support the concept of a "Title IV-wide" approach to the MDE process. In fact, CSS has encouraged the Department of Education, wherever possible, to expand MDE processors' area of responsibility, for example, in performing complete selection of applicants for verification purposes, in producing "official" Pell Grant Student Aid Index (SAI) calculations, and in generating eligibility reports directly rather than through the central Pell Grant contractor. CSS has also helped integrate the Stafford Loan Program application process with that for Pell/Campus-Based programs, working far beyond the traditional sphere of MDE agencies to improve the flow of data for students, institutions, lenders, and guarantors.

We also support the notion of a "free diagnosis of federal aid eligibility for junior high school students, with particular emphasis on serving the disadvantaged." CSS has explored and tested ways to promote early financial aid planning and guidance for students, and we would be eager to collaborate with the Advisory Committee in devising a workable approach.

But we disagree with the Advisory Committee's vision of a process that would so completely separate the application for federal student assistance from that used for all other types of aid. The Advisory Committee would require all "approved processors" to issue a standard, federally-specified form, forcing all non-federal data elements to a separate form (or separate part of a form). In the short run, this would reverse all the advances that have been made in integrating the application design, and complicate, rather than ease, the burden on the applicant.

In the longer run, the consequence of so fragmenting the application system would be a proliferation of forms, such as occurred in the 1970s. From experience we know that multiple forms lead to redundancy in data

collection and increased confusion for students. Worse, multiple forms increase the likelihood that some students will miss out on funds to which they're entitled--and miss out on educational opportunities.

We further oppose the extensive power that the Advisory Committee would lodge with the Secretary of Education to control the delivery of aid and the availability and timing of services to institutions in the process. I should think Congress would be concerned about this degree of delegation as well. The Advisory Committee would leave it to the Secretary to determine the optimal number of processing contracts, with no indication of congressional intent as to the qualifications of potential bidders. The Advisory Committee's suggested language is so broad that the Secretary would be in a position to design the system, specify the schedule of processing and data outputs to institutions, and limit the ability of campus aid administrators to select services that best meet the needs of students at each institution. Federal standardization, moreover, will inhibit innovation and competition among processing agencies, retarding progress in improving the overall system on behalf of students.

An attachment to my testimony spells out additional concerns we have with reference to the legislative language the Advisory Committee has submitted to Congress.

THE ISSUE OF STUDENT APPLICATION FEES

We share in the desire to have a financial aid system which assesses eligibility and need at the lowest possible cost to the student, and also to the taxpayer. There is tension, however, between what should be and what is realistic.

The only certainty is that no application processing is ever "free." Instead, the issue becomes one of determining in what proportion the student (through application fees or other direct or indirect charges) and the taxpayer (either federal or state) will share the costs.

A corollary to this rule is that prohibiting a fee to the student at one point does not necessarily preclude it at another point, either as an application fee per se, or as part of another fee like a student loan insurance premium, or even more indirectly as part of total college tuition charges. As a result, whatever costs are not publicly funded will ultimately be transferred one way or another to the student.

As an association, we have struggled for years with the question of how to apportion the costs of CSS services most fairly among aid applicants and aid providers, including institutions, state governments, and the federal government. The federal government could conceivably extend its financial responsibility (i.e., cost reimbursement to MDE agencies) to cover the costs of processing data required to satisfy non-federal, supplementary state and institutional requirements or to facilitate professional judgment by the aid administrator. But the federal budgetary outlook makes that unlikely.

Given all these constraints, an application processing fee for some

students and institutions appears to be the only means of assuring a delivery system that lets a student apply for all types of assistance using a single form.

Clearly some students ideally should not have to pay to apply for financial aid. That is why CSS has maintained a fee-waiver program for many first-time filers for whom fees might constitute a serious barrier. And that it is why we disagree with the Advisory Committee's recommendation to do away with the Application for Federal Student Aid (AFSA), which is fully taxpayer-subsidized and offered by the federal government directly at no charge to applicants.

COLLEGE BOARD RECOMMENDATIONS

The Advisory Committee on Student Financial Assistance had to work against a very tight schedule in meeting the legislative directive to address this complicated set of issues. I suggest that more time and public discussion are needed before taking action on the proposals it has presented to the Congress.

I also wish to bring to your attention the College Board's own recommendations for amending Section 483 of the Higher Education Act. Our suggested statutory language and accompanying explanation are attached to my testimony. I hope the Congress and the Advisory Committee will review these proposals to see if they do not solve many of the specific contractual issues that the Congress directed the Advisory Committee to investigate.

Finally, I suggest that Congress direct the Advisory Committee to undertake a broad-based study of simplification, beginning with statutory and regulatory requirements affecting eligibility, proceeding from there to need analysis, using the findings to design and propose a consolidated, integrated delivery system that will provide better service to students and the institutions they attend.

Thank you for this opportunity to testify. I shall be glad to answer questions.

College Board Analysis
of Proposed Legislative Language*
from the Advisory Committee on Student Financial Assistance
September 1988

Advisory Committee Reference	College Board Analysis
Sec. 483(a)(1)"...to determine the contribution of a family..." pg. 1, lines 12-13	This language narrows the purpose of the application form simply to need analysis, potentially creating an environment in which a narrow reading of the statute by staff in ED or OMB might lead to the exclusion of questions used to determine program eligiblity.
Sec. 483(a)(1)"...no additional data elements may be added..." pg. 1, lines 18-19	By forcing non-federal data elements to a separate form, this language forces a data collection process that will be illogical, confusing and frustrating to filers. Such an approach will: probably result in some students not submitting an application for all the forms of assistance for which the student might be eligible; certainly increase the need of institutions and state agencies to undertake follow-up efforts for missing information, thereby delaying awards to students, increasing administrative expense needlessly, and permitting some students to become lost in the process.
Sec. 483(a)(1)"...although the sequence of data may be modified..." pg. 1, lines 19-20	By permitting adjustments to the design of the form to suit such different technologies, this language essentially voids the notion of a truly "common" form, and undoes whatever would be gained by such a document.
Sec. 483(a)(1) "This loan application shall not be produced automatically..." pg. 2, lines 3-5	By prohibiting a direct linkage between the student application and a separate application for a Stafford Student Loan, the Advisory Committee's language essentially undoes its objective of an integrated Title IV delivery system and reverses many advances made in recent years by the MDE agencies working in cooperation with the guaranty agencies. Because the determination of student need is an essential part of the loan application process, this language essentially forces a two-step process for every student, including the many for whom the GSL will be the only form of assistance.

Advisory Committee Reference	College Board Analysis
Sec. 483(a)(1) "No student or parent of a student shall be charged a fee..." pg. 2, lines 7-16	By creating a situation where a student might submit an MDE form without a fee, even though that document may not meet the needs of institutions and agencies, this language creates severe risks for students. First, it greatly enhances the possibility that some students will never see all the assistance for which they might be eligible. Second, by setting up a two-step system, this language increases the probability of incomplete, inconsistent, and inaccurate data reporting by students. The consequence of this situation is additional work by institutions and agencies, effort that cannot be spent in more pro-student activities. If this additional information will ultimately be required, why not admit its legitimacy up-front?
Sec. 483(a) "(2) The Secretary shall enter into as many contracts..." pg. 2, lines 17-25	This section permits the creation of the so-called "Title IV" contracts (although such contracts would clearly inhibit Stafford Student Loan delivery), but transfers enormous power to the Secretary of Education to determine the optimal number of contracts and provides no basic indication of the Congress's intent with regard to the basic characteristics of such processors. In particular, this language fails to contain any wording to carry forward the Committee's recommendation for a procurement process "that weighs technical factors as strongly as cost factors." As a result, there is no assurance that either the design of the delivery system or the agents selected by the Secretary will actually reflect both Congressional desires and a structure that works effectively for students.
Sec. 483(a)(2) "(B) in a timely manner, furnishing to the student and the financial aid administrator..." pg. 3, lines 3-10	This language provides the Secretary with authorization to contract for delivery of services to institutions and students. However, it is so broadly stated that its result will be to transfer enormous power to the Secretary to determine the fundamental nature of the delivery system, specify the nature of outputs, the schedule on which they

Advisory Committee Reference

College Board Analysis

are to be processed, and limit the ability of the financial aid administrator to select those services that best meet the needs of the students at that institution. This unprecedented expansion of the Secretary's power stands in marked contrast to the express limitations of his power in need analysis.

Furthermore, the transfer to the Secretary of the right to design the actual structure of the delivery system without any indication of Congressional intent other than "timely" exposes all institutions and students to significant risks that the Secretary's design standards may well be determined by factors (e.g., impact on the S&E budget) other than "good service." In addition, standardization will inhibit innovation and competition, retarding progress in improving the system on behalf of students.

Finally, limiting reporting to institutions in which the student is enrolled or accepted for enrollment effectively precludes the institution from accessing data that it will need in making a timely financial aid decision; if the information is not available until the student has been accepted for enrollment, there will be considerable delays in advising students about the financial aid package that will be necessary in order to decide whether to enroll. Such a situation would make a second class citizen out of the needy student.

*Note: based on text of legislative proposal dated September 8, 1988.

AMENDMENT TO INCORPORATE RECOMMENDATIONS FROM THE ADVISORY COMMITTEE ON STUDENT FINANCIAL ASSISTANCE

Section 483(a) of the Higher Education Act (U.S.C. 1090) is amended to read as follows:

"Sec. 483. (a) COMMON FINANCIAL AID FORM AND PROCESSING.- (1) The Secretary, in cooperation with representatives of agencies or organizations involved in student financial assistance, shall develop and mandate a common financial reporting form (including the form required by section 479(c) of the Act) to be used by all approved processors to determine the contribution of a family and/or student for the purposes of financial assistance under parts A, B, C and E of this title (other than subpart 3 of part A). No other form may be used to determine the contribution for student financial assistance under this parts A,B, C and E of this title (other than subpart 3 of part A) and no additional data elements may be added to the form mandated by the Secretary, although the sequence of data may be modified with the approval of the Secretary for the specific purpose of permitting the use of various processing technologies. Approved processors may use the form mandated by the Secretary separately or as the first section of a multipart form. Other data may be collected and used by approved contractors in other parts of the form developed by such contractors. For the purpose of collecting eligibility and other data for the purpose of part B, guaranty agencies, in cooperation with the Secretary, shall develop common, separate, identifiable loan application documents that applicants or institutions in which the students are

enrolled or accepted for enrollment shall submit directly to eligible lenders and on which the applicant shall clearly indicate a choice of lender. This loan application shall not be produced automatically and sent to the applicant as a result of filing the form mandated by the Secretary.

No student or parent of a student shall be charged a fee for processing the form mandated by the Secretary or for the delivery to the applicant and the institution of applicant data or output data or documents resulting from filing the form mandated by the Secretary, whether the student completes the mandated form separately or as a part of a multipart form developed by an approved processor. A student or parent may be charged a fee for processing an institutional or a State financial aid form or for sections of a multipart form not mandated by the Secretary.

"(2) The Secretary shall enter into as many contracts as are necessary to ensure availability and access to services for all students applying for assistance under this title, but, to the extent practicable, this number shall be greater than 4. The Secretary may enter into contracts with qualified States, state agencies, institutions of higher education, or public or private organizations for the purposes of providing necessary services for the processing and delivery of financial aid under this title. Such services shall include, but not be limited to:

"(A) determining the contribution of a family and/or student required for financial assistance under parts A, B, C,

and E of this title (other than subpart 3 of part A);

"(B) in a timely manner, furnishing to the student and the financial aid administrator (at any institution of higher education that a student awarded aid under parts A, B, C and E of this title--other than subpart 3 of part A--is enrolled or has been accepted for enrollment), the data that the applicant reports on the common form and the contribution for each such student in a medium requested by the institution, including electronic media;

"(C) for each academic year after academic year 1988-1989 preparing and submitting a report to the Secretary on the correctness of the computations on the amount of contributions for financial assistance under parts A, B, C, and E of this title (other than subpart 3 of part A) and the accuracy of the questions on the application form for the previous academic year for which the processor is responsible. The Secretary shall transmit the report, together with the comments and recommendations of the Secretary, to the Committee on Appropriations and the Committee on Labor and Human Resources of the Senate and the Committee on Education and Labor of the House.

"(3) The Secretary shall not select multiple data entry processors after the date enactment of the Higher Education Amendments Act of 1986 without recommendations from the Advisory Committee on Student Financial Assistance on the number and kind of processors and their impact on students, the relative costs of processing applications and development fees, and fees for the

processing applications and development fees, and fees for the reimbursement of all processors by the Federal Government.

"(4) The Secretary shall reimburse all approved contractors at reasonable, competitively determined rates for carrying out services required under paragraph (2) and other requirements that may be prescribed by the Secretary.

"(5) All approved contractors shall be required to adhere to all editing, processing, and reporting requirements established by the Secretary to ensure consistency.

"(6) Nothing in this section shall prohibit States, institutions of higher education, or private organizations from simultaneously collecting forms or multipart forms in addition to the form mandated by the Secretary, as may be necessary to determine the eligibility of a student for financial aid funds not covered under this title.

"(7) No contractor shall be reimbursed for the development costs of additional forms or for sections on a multipart form which are not mandated by the Secretary.

"(8) The Secretary shall enter into a contract with an organization for the purposes of maintaining a centralized data bank for data required to calculate contributions for assistance under parts A, B, C and E (except subpart 3 of A).

AMENDMENTS TO SECTION 411(f)(1)

Sec. 411(f)(1) is amended by-

(a) striking out in the first sentence "(including a central processor, if any, designated by the Secretary)"; and

(b) striking out in subparagraph (D) "to a central processor (if any) designated by the Secretary".

AMENDMENT TO SECTION 485(a)(1)(C)

Sec. 485(a)(1)(C) is amended by striking out the ";" and adding in lieu thereof:

", as well as the means by which a student can apply for financial assistance under this title (other than subpart 3 of part A) without charge".

AMENDMENT TO SECTION 485(d)

Sec. 485 (d) is amended by-

(1) inserting "(1) before "The Secretary shall" and striking out "(1)" and "(2)" and inserting in lieu thereof "(A)" and "(B)" respectively;

(2) inserting a new paragraph (2) as follows:

"(2) The Secretary shall provide, at a minimum, specific samples of the average amount and type of Federal assistance that students with different income levels and numbers of family members, attending institutions with varying costs of attendance, are eligible for. Such information shall also contain a statement that students may apply for and receive Federal student financial assistance free of charge."; and

(3) redesignating subsequent paragraphs accordingly.

Sec. 485 (d)(3) is amended by striking out "In particular, such information" and inserting in lieu thereof "The information provided by the Secretary".

COLLEGE BOARD
SEPTEMBER 1988

REPLACEMENT MDE LANGUAGE
(Underscoring indicates revised or new language)

Sec.483 (a) COMMON FINANCIAL AID FORM AND PROCESSING. --

(1) The Secretary, in cooperation with representatives of agencies and organizations involved in student financial assistance, shall develop a model financial reporting form to be used to determine the need and eligibility of a student for financial assistance under Parts A, B, C, and E of this title (other than under subpart 3 of part A) and to determine the need of a student for the purpose of part B of this title. The model form shall contain the minimum data elements the Secretary determines are necessary to determine the eligibility and financial need of students. Other forms may be developed and used by processors approved pursuant to subsection (a)(3) of this section if such alternative forms contain the data elements prescribed by the Secretary.

(2) The Secretary shall make the model financial reporting form available to students and shall select, pursuant to a competitive bidding processor, an organization, which, without fee to the student, shall process such form and issue eligibility reports.

(3) (A) In order to minimize the necessity for students to submit multiple applications to establish eligibility and need for financial assistance under various Federal, State, and institutional programs, the Secretary shall, to the extent practicable, enter into not less than 5 contracts with States, institutions of higher education, or private organizations for the purposes of processing the alternative forms authorized by subsection (a)(1) of this section and issuing eligibility reports.

(B) In selecting organizations to serve as processors pursuant to paragraph (3)(A)of this subsection, the Secretary shall take into consideration such factors as an organization's prior experience and capacity in processing applications for student financial assistance, the extent to which an organization's alternative form would reduce the necessity for students to file multiple applications, the extent to which an organization can facilitate national access by students to an alternative form, and other services, in particular in the area of training, offered by an organization to improve access to and administration of student financial assistance authorized by this title.

(C) Organizations with which the Secretary enters into contracts pursuant to paragraph (3)(A) of this subsection may not charge the student or parent of a student a fee for processing the data elements prescribed by the Secretary pursuant to subsection (a)(1) of this section or for the eligibility reports issued pursuant to paragraph (3)(A) of this subsection. A fee may be charged for processing an institutional or a State financial aid form or for data elements or services that are not required by the Secretary as part of the model financial reporting form or eligibility reports.

(D) The Secretary shall reimburse all organizations authorized to process alternative forms pursuant to paragraph (j)(A) of this subsection at a reasonable standardized rate for processing the data elements prescribed by the Secretary pursuant to subsection (a)(1), for issuing eligibility reports, and for carrying out other services or requirements that may be prescribed by the Secretary. The Secretary shall establish the standardized rate for such reimbursement by means of the competitive bidding process authorized by subsection (a)(2) of this section.

(E) No organization authorized by the Secretary pursuant to paragraph (j)(A) of this subsection to process alternative forms as defined in subsection (a)(1) of this section shall receive reimbursement from the Secretary for the cost of developing its alternative form.

(F) All approved contractors shall be required to adhere to all editing, processing, and reporting requirements established by the Secretary to ensure consistency.

(k) Nothing in this section shall prohibit States, institutions of higher education, or private organizations from simultaneously collecting data elements, in addition to the data elements prescribed by the Secretary, as may be necessary to determine the eligibility of a student for financial aid funds not covered by this title. Nothing in this section shall prohibit institutions of higher education from requiring students to submit information that the institution determines is necessary pursuant to the exercise of professional judgment, as authorized in Section 479 of this part, and to select recipients of and to determine the amounts of awards under Parts B and C and subpart 2 of Part A of this title.

Rationale and Commentary

Sec. 483(a)(1). This subsection provides an explicit statutory authorization for the current practice of permitting an MDE contractor to convert the data elements contained in the form designed by the Secretary into a form consistent with its own technology and the information needs of its constituencies. By clarifying the authority for such forms, this section makes permanent a structure that has permitted MDE contractors to design forms that best serve the diverse needs of students and the institutions they attend.

(2) This paragraph requires the Secretary to make a need analysis form for some Title IV programs available to students and to permit its processing without any charge to the student applicant. In doing so, this paragraph ensures that any student can have access to a Federal program eligibility form that will be processed without a fee.

(3)(A) This subparagraph retains the existing statutory authorization for the Secretary to enter into MDE contracts, but adds as an explicit rationale a goal of minimizing the necessity for a student to file multiple applications to apply for financial aid from all sources.

(B) This subparagraph defines a specific set of characteristics that the Secretary should use in selecting MDE contractors. Although the list of characteristics is not intended to be exhaustive, it reveals an orientation towards qualitative factors that will ensure that students, institutions, States, and the Federal Government all receive timely high-quality service.

(C) This subparagraph is intended to make clear that the MDE contractor may not charge a fee to the student for a service that does nothing more than process the required data elements and issue the eligibility report specified by the Secretary. It is the intent of the Congress that the reimbursement received by the MDE contractor shall cover the cost to the student of processing those common data elements and issuing specified eligibility reports.

(D) This subparagraph directs the Secretary to use the competitive bidding process established in paragraph (2) for processing a form without fee to a student as a means of establishing a reasonable standardized reimbursement to MDE contractors. Because the nature of the other services provided by MDE contractors may significantly affect their cost structure, this paragraph ensures that the Federal Government will pay no more than is necessary for such processing, namely the amount that would have been required to process a free form for that student. This subparagraph also ensures that the reimbursement rate is determined competitively.

(E) This subparagraph ensures that the Secretary is not required to underwrite the costs of developing any of the alternative forms that are authorized. Such reimbursement would be duplicative of the effort already incurred by the Secretary in developing the model need analysis form.

Mr. WILLIAMS. Thank you, Mr. Stewart. Mr. Wenman.

Mr. WENMAN. Good morning, Mr. Chairman. I would first like to express regrets from Mr. Matejka, our Executive Director, who had originally planned to attend and because of some personal issues was not able to make the trip today. It is my pleasure to represent the Illinois State Scholarship Commission before your Committee and give our views on the Report to Congress by the Advisory Committee on Student Financial Assistance.

ISSC supports this report and its recommendations on multiple data entry processing. Our testimony will be purposely brief in order that our time before you may be used by your Committee to ask us questions as the Government's latest MDE contractor.

By way of background, it may be helpful for the Committee to know that among the reasons ISSC chose to compete for an MDE contract was the fact that there had been a lack of competition and because we had heard of the planned elimination of the free application for Federal student aid. It is gratifying that our entry into the MDE arena seems to have contributed to the continuation of the free form debate as well as increasing the competition among MDE processing providers. It should also be noted that ISSC charges the lowest MDE unit rate to ED and still provides the free form to the students and no state tax dollars are used to subsidize this process.

One of the reasons that we were so eager to make sure that a free form continued to be available is that the majority of Illinois applicants have historically completed a free form to apply for Federal, state and institutional financial aid. We wanted that to evolve so more students could be considered at no cost to them.

Returning to the reason you asked us to testify, and speaking directly to the points outlined in your letter of invitation dated September 16, we offer the following additional comments:

(1) We feel strongly that the upcoming RFP to be issued by the U.S. Department of Education should be for all Title IV student financial assistance, not just Pell Grant eligibility determination. We would like to see more integration of student aid delivery systems.

(2) Consistent with our testimony on January 26 and July 20 before the Advisory Committee, we recommend that the number of MDEs should be as few as practical but not more than five.

(3) We agree with the recommendation that the level and range of processing fees paid to contractors should be determined through an open, fair and competitive procurement process that weighs technical factors nearly as strongly as cost factors in the proposal evaluation.

(4) The 1990-1991 system should standardize output documents for students, schools and state agencies. System development costs should also be on a competitive basis.

(5) Schools need to be told explicitly that students may not be required to fill out a form for which a fee is charged if they wish consideration only for federal student aid programs.

Finally, this appears to be the last opportunity to bring about an integrated student aid delivery system. The community has been debating it for years and the consequences have been obvious among your constituents. Students are still confused and needy applicants are still paying to prove they are needy.

We strongly recommend that your Committee send a clear signal to the U.S. Department of Education that the delivery system you want implemented for 1990-1991 is to be based on a single free form to apply for all student financial aid. It should not have what is called "embedded data elements" in various versions of MDE forms.

If this recommended system is prescribed in the Request for Proposals, which is overdue from the U.S. Department of Education, there would be a better system for needy students, schools and state agencies. It would appear, however, that you will need to direct the U.S. Department of Education to create the type of system your advisors have advised be created. If such a system is specified in the RFP, ISSC will probably not need to be an MDE contractor and one less form will be disseminated in Illinois and around the country.

Thank you.

[The prepared statement of Larry E. Matejka follows:]

TESTIMONY BY

LARRY E. MATEJKA, EXECUTIVE DIRECTOR

ILLINOIS STATE SCHOLARSHIP COMMISSION

BEFORE THE

U. S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON POSTSECONDARY EDUCATION

MISSOULA, MONTANA

SEPTEMBER 24, 1988

Good morning, Mr. Chairman. It's a pleasure to represent the Illinois State Scholarship Commission before your committee today and to give our views on the report to Congress by the Advisory Committee on Student Financial Assistance. ISSC supports this report and its recommendations on Multiple Data Entry processing.

Our testimony will be purposely brief in order that our time before you may be used by your committee to ask us questions as the government's latest MDE contractor.

By way of background it may be helpful for the committee to know that among the reasons ISSC chose to compete for an MDE contract was the fact that there had been a lack of competition and because we had heard of the planned elimination of the free application for federal student aid. It is gratifying to see that our entry into the MDE arena seems to have contributed to the continuation of the "free form" debate as well as increasing the competition among MDE processing providers.

One of the reasons that we were so eager to make sure that a free form continued to be available is that the majority of Illinois applicants have historically completed a free form to apply for federal, state, and institutional financial aid. We wanted that to evolve so more students could be considered at no cost to them.

Returning to the reason you asked us to testify, and speaking directly to the points outlined in your letter of invitation dated September 16, we offer the following additional comments:

1. We feel strongly that the upcoming RFP to be issued by the U. S. Department of Education should be for all Title IV student financial assistance, not just Pell Grant eligibility determination. We would like to see more integration of student aid delivery systems.

2. Consistent with our testimony on January 26 and July 20 before the Advisory Committee, we recommend that the number of MDE's should be as few as practical but not more than five.

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4. The 1990-91 system should standardize output documents for students, schools, and state agencies. Forms development costs should also be on a competitive basis.

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years, and the consequences have been obvious among your constituents. Students are still confused, and needy applicants are still paying to prove they are needy.

We strongly recommend that your committee send a clear signal to the U. S. Department of Education that the delivery system you want implemented for 1990-91 is to be based upon a single, free form to apply for all student financial aid. It should not have what is called "imbedded data elements" in various versions of MDE forms.

If this recommended system is prescribed in the Request For Proposals, which is overdue from the U. S. Department of Education, there would be a better system for needy students, schools, and state agencies. It would appear, however, that you will need to direct the U. S. Department of Education to create the type of system your advisors have advised be created. If such a system is specified in that RFP, ISSC will probably not need to be an MDE contractor, and one less form will be disseminated in Illinois and around the country.

We would be pleased to address any questions you might have.

Mr. WILLIAMS. Thanks very much, we appreciate your testimony. Our final witness this morning is Mr. Schwab.

Mr. SCHWAB. Mr. Chairman, I also thank you for the opportunity to be here this morning. As way of introduction, I am Dick Schwab, Manager of Federal Services for National Computer Systems—NCS. NCS has more than 20 years of student financial aid project experience and is currently the Pell Grant Application Processing System contractor—the central processor. Across all of our financial aid-related products and services we have more than 300 employees involved in financial aid delivery system activities.

NCS has closely followed the work of the Advisory Committee on Student Financial Assistance and supports their goal of improving student aid delivery. To make their goals a reality, many implementation challenges must be met. I am here today to discuss three of these: broad access, effective change management and cost containment.

First, broad access. In 1987-1988, the last complete financial aid processing cycle, seven million students applied for financial aid through the Pell Grant Application Processing System. Of these students, 2.5 million, about 35 percent, applied for aid using the free Federal form, six percent used forms sponsored by Pennsylvania and Illinois and the remaining 59 percent, about four million students, used forms provided by ACT and CSS.

The 2.5 million applicants who used the free Federally published form tend to be the most needy applicants. They also tend to go to non-traditional institutions; proprietary and trade schools and community colleges, who receive financial aid services from a variety of financial aid servicers.

The free Federal form has historically been printed by Department of Education and widely distributed to libraries, post offices, Trio programs, high schools, postsecondary institutions and other community centers throughout the country. The free Federal form, published and distributed by ED, should not be abruptly discontinued lest the 2.5 million applicants currently using the form—many of them hard to reach and needy—be missed.

The current Federal form also serves as the basis for competitive service offerings of the financial aid servicers. Because of the complexity of administering student financial aid, many non-traditional institutions enlist financial aid servicers to perform aid administration functions. The financial aid servicers, using the free Federal form, sometimes called the AFSA, have a clean, direct line to the Department of Education and the Title IV programs.

The second topic, change management. In my opinion, the existing financial aid delivery system, while imperfect in many details, is quite effective overall in reaching, qualifying and delivering aid to eligible students. Our approach to improving this system and achieving the Advisory Committee's goals should be one of systematic refinement and enhancement, not revolutionary change.

Effectively managing change requires careful balance of the risks of shifting roles and responsibilities against the improvements to be achieved. I want to comment on three topic areas.

First, system management. Both Congress and the Department of Education require that the student aid delivery system be responsive to changing needs and initiatives. Many of these initiatives are

decided upon late in the system development process. Today, ED has the ability to drive these changes into the central system to be used as a baseline to validate that all other processing systems are accurate. It is important to keep control functions centralized to maintain efficient and high quality delivery of student financial aid.

Second, standardization. A great deal of time and attention has been focused on standardizing the front end of the process through the free Federal form. The Advisory Committee's attention should now be focused on ensuring consistency and standardization of the entire output side of the system. This standardization of output must encompass eligibility notification, correction documents, telephone call responses, correspondence, payment processing and electronic processing. An interesting dilemma will occur here, as the Federal Government drives toward standardization, there is high risk of either increased cost to the Federal Government, or decreased service or some kind of cost subsidies to the process. I will talk about cost a little bit more later.

Third, the impact on institutions. The impact of these changes on institutions must be minimized through the careful selection of a combination of highly qualified Title IV processors capable of providing non-redundant service to all institutions. Increasing the number of processors with which institutions must deal, may impose greater burden on institutions, particularly when students change schools or repeatedly correct their aid applications.

In addition, the more than 1700 institutions which currently receive electronic data from the Department of Education through the central processor must be considered. These institutions can correct student data and return it electronically to the central processor in a very quick fashion. In implementing the Advisory Committee's recommendations, the progress made over the past four years in electronic processing—both I might add at the central processor and through the existing MDEs—should not be jeopardized. Although it is feasible to have electronic services integrated among all processors, implementation of such a system would be a great challenge indeed. Without an implementation plan and time to implement the plan, electronic efficiencies currently available may be lost.

The third topic, cost containment. The Advisory Committee and Congress have made clear their intention to have a free Federal form. Philosophically we all agree that needy students should not have to pay to apply for Federal financial aid. Practically we all know that there is no free lunch. The two states which are currently MDEs subsidize the cost of processing and service in order to provide free forms to students. Congress should only go forward with the Advisory Committee's recommendations if it is willing to accept the responsibility for funding the costs previously paid by students and subsidized by states.

If I could digress for just a moment here from my written testimony and talk a little bit about the cost of financial aid today. And while these numbers in detail will be wrong, in a macro-sense, I believe they represent what the system costs today. As stated earlier, the American College Testing Program and CSS charge somewhere between seven and eight dollars per student and, as you

heard from me, about four million students use their services. Let me say then that students are paying through ACT and CSS for a number of features in the student aid delivery system about $30 million per year. The Department of Education pays these two MDEs plus the other two MDEs about $5 million for development and transferring data to the central processor. NCS, the central processor, receives approximately $10 million a year for financial aid processing services. ED forms development cost, while it is not a number I know exactly, should be somewhere in the $5 million range. If I add those numbers together, the aid delivery system today costs about $50 million, $30 million borne by students and $20 million borne by the Department of Education.

In the future, these costs, allowing for some efficiencies—and I think at times we have overstated or over-anticipated what those efficiencies will be—will be borne by someone.

In closing, let me once again reinforce my endorsement of the Advisory Committee's goals and summarize the three principal implementation challenges I presented today.

First access. The Federal Student Aid Delivery System depends on the federally distributed form to reach more than 2.5 million students. It should not be abruptly eliminated.

Second, change management. The current system has some significant features that allow Congress and the Department of Education to be responsive to changing needs and requirements. These should not be lost in a redesign. In addition, changes to the system should not make the task of financial aid administration at institutions more difficult.

Third, cost. Significant cost reductions to students will likely lead to increased cost to the Federal Government or a reduction in the quality of the services provided to the constituencies; students and institutions.

In conclusion, these are the primary implementation challenges as we see them: maintain broad access, manage change, contain costs. NCS hopes to continue to be a partner in meeting these challenges and helping to provide practical solutions to improving student aid delivery. We stand ready to assist the Congress, the Committee and the Department of Education in their efforts.

Thank you, Mr. Chairman.

[The statement of Mr. Schwab follows:]

Mr. Chairman, I would like to thank you for the opportunity to testify before this Subcommittee. As way of introduction, I am Dick Schwab, Manager of Federal Services for National Computer Systems --- NCS. NCS has more than 20 years of student financial aid project experience and is currently the Pell Grant Application Processing System contractor -- the central processor. Across all of our financial aid-related product and service activities, we have more than 300 employees involved in the financial aid delivery system.

NCS has closely followed the work of the Advisory Committee on Student Financial Assistance and supports their goal of improving student aid delivery. To make this goal a reality, many implementation challenges must be met. I am here today to discuss three of these: **broad access, effective change management, and cost containment.**

Broad Access

In 1987-88 -- the last complete financial aid processing cycle-- 7 million students applied for Federal financial aid through the Pell Grant Application Processing System. Of these students, 2.5 million, about 35 percent, applied for aid using the free Federal form, 6 percent used forms sponsored by Pennsylvania and Illinois and the remaining 59 percent - 4 million students, used forms provided by ACT and CSS.

The 2.5 million applicants who use the free Federal form tend to be the most needy applicants. They also tend to go to nontraditional institutions -- proprietary and trade schools and community colleges -- who receive financial aid services from a variety of financial aid servicers.

The free Federal form has historically been printed by ED and widely distributed to libraries, post offices, Trio programs, high schools, postsecondary institutions, and other community centers throughout the country. The free Federal form, published and distributed by ED, should not be abruptly discontinued lest the 2.5 million applicants currently using the form -- many of them hard-to-reach and needy -- be missed.

The current Federal form also serves as the basis for the competitive service offerings of the financial aid servicers. Because of the complexity of administering student financial aid many nontraditional institutions enlist financial aid servicers to perform aid administration functions. The Financial aid servicers, using the free Federal form have a clean, direct line to the Department of Education.

Change Management

In my opinion, the existing financial aid delivery system, while imperfect in many details, is quite effective overall in reaching, qualifying, and delivering aid to eligible students. Our approach to improving this system and achieving the Advisory Committee's goals should be one of systematic refinement and enhancement.

Effectively managing change requires careful balance of the risks of shifting roles and responsibilities against the improvements to be achieved. I want to comment on several topics.

First, System Management.

Both Congress and the Department of Education require that the student aid delivery system be responsive to changing needs and initiatives. Many of these initiatives are decided upon late in the system development process. Today, ED has the ability to drive these changes into the central system to be used as a baseline to validate that all other processing systems are accurate. It is important to keep control functions centralized to maintaim efficient and high quality delivery.

Second, Standardization.

A great deal of time and attention has been focused on standardizing the front end of the process through the free Federal form. The Advisory Committee's attention should now be turned to ensuring consistency and standardization of the entire output side of the system. This standardization of output must encompass eligibility notification, correction documents, telephone call responses, correspondence, payment processing, and electronic processing.

Third, Impact on Institutions.

The impact of these changes on institutions must be minimized through the careful selection of a combination of highly qualified Title IV processors capable of providing non-redundant service to all institutions. Increasing the number of processors with which institutions must deal, may impose greater burden on institutions, particularly when students change schools or repeatedly correct their aid applications.

In addition, the more than 1700 institutions which currently receive electronic data from the Department of Education through the central processor must be considered. These institutions can correct student data and return it electronically to the central processor. In implementing the Advisory Committee's recommendations, the progress made over the past four years in electronic processing may be in jeopardy. Although it is feasible to have electronic services integrated among all processors, implementation of such a system would be a great challenge indeed. Without an implementation plan and time to implement the plan, electronic efficiencies currently available may be lost.

Cost Containment

The Advisory Committee and Congress have made clear their intention to have a free Federal form. Philosophically, we all agree that needy students should not have to pay to apply for Federal financial aid. Practically, we all know that there is "no such thing as a free lunch." The two states which are currently MDEs subsidize the cost of processing and service in order to provide free forms to students. Congress should only go forward with the Advisory Committee's recommendations if it is willing to accept the responsibility for funding the costs previously paid by students or subsidized by states.

In closing, let me once again reinforce my endorsement of the Advisory Committee's goals and summarize the three principal implementation challenges I presented today.

- ACCESS. The Federal Student Aid Delivery System depends on the federally distributed form to reach more than 2.5 million students. It should not be eliminated abruptly.

- CHANGE MANAGEMENT. The current system has some significant features that allow Congress and the Department of Education to be responsive to changing needs and requirements. These should not be lost in a redesign. In addition, changes to the system should not make the task of financial aid administration at institutions more difficult.

- COST. Significant cost reductions to students will likely lead to increased cost to the Federal government or a reduction in the quality of the services provided.

In conclusion, these are the primary implementation challenges as we see them: maintain broad access, manage change, contain costs. NCS hopes to continue to be a partner in meeting these challenges and in helping to provide practical solutions to improving student aid delivery. We stand ready to assist the Congress, the Committee, and the Department of Education in their efforts.

Thank You.

Mr. WILLIAMS. Thank you. Mr. Jeffords.

Mr. JEFFORDS. Hopefully brief questions or brief answers. Anyway, Mr. Schwab, you are a private contractor?

Mr. SCHWAB. Yes, we are.

Mr. JEFFORDS. And so you compete with others to get your contracts?

Mr. SCHWAB. Yes, we do.

Mr. JEFFORDS. Have you bid on a per-unit, per-application? How does it work? Is it cost per application?

Mr. SCHWAB. The contract is structured such that there are per-unit costs for such things as application processing, duplicate request processing and a number of other services which can be provided on a per-unit basis, and then there are fixed cost deliverables also; annual systems, requirements definitions, the annual systems roll-over, end of year reporting and so on. So it's a mixture.

Mr. JEFFORDS. And there is no fee charged if I send my application to you to go to the college?

Mr. SCHWAB. No fee charged to the student.

Mr. JEFFORDS. Mr. Heffron, you indicated that the Government is not paying you for the full base cost of your work.

Mr. HEFFRON. That is correct.

Mr. JEFFORDS. Okay, and is your process—I do not need to go through all the elements—similar to what——

Mr. HEFFRON. Yes, it is. However, the way the RFP is structured, we are to bid on the marginal costs of the processes as opposed to the full cost. In other words, it is assumed that MDE is an add-on to our regular services.

Mr. JEFFORDS. Now——

Mr. HEFFRON. The elements the Government uniquely requires, they will pay 100 percent of the cost of; however, those we share, they will pay only the transmission cost of.

Mr. JEFFORDS. Mr. Stewart, let me go to you next. I am concerned about the fees charged here. I do not know, I would guess the average student probably asks for three colleges or so to send it to, two, three, what is your average?

Mr. STEWART. I think you are about right, two, three.

Mr. JEFFORDS. So I look at the fee charged for say three which is $18.50. Obviously that is not mailing cost. What I am worried about here is whether or not we are seeing costs being pushed off through the fee system which are supposedly borne by the Department of Education—that is the indication that I get from the combination of your testimony. It seems to me that if a student who ought to be entitled to pretty close to a free application but because a state happens to have some additional financial aid available or other financial aid available, that instead of getting a free one, they pay a considerable sum of money to use a different form. It is hard for me to understand how the additional information which is required from the state or the institution would result in such a high fee which obviously is being charged here. Do you have an explanation for that?

Mr. STEWART. Mr. Jeffords, I am not sure I have an explanation for it. I do not think the fee is exorbitant. At the same time, it gives the student greater flexibility. If not using just the free form which limits the student to only one institution at a time.

There is a cost involved in the whole process of multiple applications. It has to be borne by someone. So perhaps I have not understood your question.

Mr. JEFFORDS. I am just trying to figure out why we get such a high fee if I want to go to three colleges, and presuming you are not making unreasonable profits and that is a reasonable fee which over the average number applied gives you a reasonable profit and the Federal Government is supposed to be paying you, according to Mr. Heffron, less than what they should be paying you, are we not shifting costs here to students who happen to want to take advantage of other programs?

Mr. STEWART. I am a bit confounded by your question. I do not think so. I would like if I may, Mr. Chairman and Mr. Jeffords, to call on my colleague, Hal Higginbotham, who is Executive Director of CSS, who may be able to answer your questions in more specific terms. Hal.

Mr. MARTINEZ. Will the gentleman yield?

Mr. JEFFORDS. Yes.

Mr. MARTINEZ. Let me ask the question that you asked in a different way, as a comparison.

Mr. STEWART. Go ahead.

Mr. MARTINEZ. The College Scholarship Service charges the student approximately seven dollars, right?

Mr. STEWART. A little more.

Mr. MARTINEZ. To process the application. That is per college I guess.

Mr. STEWART. A little more, yes.

Mr. MARTINEZ. While the two States guaranteeing these things are also MDE processors and do not charge anything to process that additional information. More importantly, both of those State agencies currently do not charge any guarantee fee. Why do you feel that it is necessary to charge those additional fees to students for processing that additional application?

Mr. STEWART. Mr. Martinez, we do not have a subsidy in any form for our services. The states of Illinois and Pennsylvania have a form of subsidy that we just do not have.

Mr. MARTINEZ. So in other words, you are covering the cost of it?

Mr. STEWART. We are trying to cover the cost marginally.

Mr. WILLIAMS. Did you want to bring your colleague up to give some more detail on the other question?

Mr. STEWART. Hal.

Mr. HIGGINBOTHAM. Let me try to answer your question very briefly, Mr. Jeffords. In a certain sense I think perhaps we need to keep in mind the point that Mr. Heffron made earlier. Under our current reimbursement structure, we do not receive funding from the Department for all of the services that indeed are provided even to let an institution handle the work for Federal aid programs. For example, the Department only pays us for one-tenth of the cost of data entry of our document, even though two-thirds of the data elements that are in there are required for Federal programs. We are only paid for one-fifth of the cost of inquiry and correspondence, one-tenth of the cost of the computer analysis that provides institutions with computation numbers that they use in administering their programs. This is a function of the way the

current contract has been constructed using a marginal cost basis. That is a significant difference between the MDE contracts and the ones that are used for the prime processor.

Mr. JEFFORDS. Thank you.

Mr. WILLIAMS. Mr. Martinez, questions?

Mr. MARTINEZ. Yes, just to follow up on that a bit. What is the total cost? You said that the Federal Government only pays you one-tenth, so actually they are not paying you what they really should be paying you, what Congress mandated they pay you to process that portion of the Federal requirement. Right?

Mr. STEWART. Right.

Mr. MARTINEZ. So really, they ought to be doing that because that was mandated by the Congress.

Does anybody here know what the actual cost estimate of the Illinois service is?

Mr. WENMAN. In terms of what it costs us per student?

Mr. MARTINEZ. Yes.

Mr. WENMAN. Somewhere in the neighborhood of three to five dollars.

Mr. MARTINEZ. Three to five dollars. Because you are charging seven dollars——

Mr. STEWART. A little more than seven.

Mr. MARTINEZ. What is the cost?

Mr. HIGGINBOTHAM. The first of the current academic year, the first form is processed at a cost of $7.50. I might mention though that among all four MDEs there is a considerable variance in the type of services that are provided. I suspect if you did a close cost accounting exercise, you would find that the variance in fees trail very closely to the types of services that are provided.

Mr. MARTINEZ. In other words, they do not provide as much service as you do?

Mr. STEWART. In my perception, sir, our services have a greater variety than those of the Illinois State Scholarship Commission.

Mr. MARTINEZ. Mr. Heffron, you talked about the increased cost. In other words, it would go up if you had to provide extended services. How much would it go up?

Mr. HEFFRON. Well a rough guess is if the Government were to provide the services that are now provided by student fees, it would cost roughly another $35 million. Just taking a rough guess of what we now spend and guessing what they spend——

Mr. MARTINEZ. Let us do it on an individual basis.

Mr. HEFFRON. Maybe four dollars a student, five dollars a student.

Mr. MARTINEZ. That is the important part. If it is four dollars, five dollars per student——

Mr. HEFFRON. Well that is beyond what it actually costs the Government now to process their own forms, not what they are paying us. What they are paying us is a small subset of what it costs us to process our form.

Mr. MARTINEZ. What do they pay you?

Mr. HEFFRON. I believe our throughput rate is 75 cents per student, and I cannot even print a form for that, neither can anyone else. You have to put at least five forms out there to get one back. The Government puts out about eight right now to get one back.

Minimally it costs you ten or twelve cents to print that form, so that is a buck. So we are not even charging us what it costs to print the forms or distribute them.

Mr. MARTINEZ. Is that a Pell Grant? For the Pell Grant I would imagine that ought to be absorbed in the cost of the grant itself. Why can it not be included in that loan so the student himself does not have to pay when he cannot afford to pay up front?

Mr. HEFFRON. Well to some extent, the student receiving a loan will pay, or the Government pays. In other words, the Department of Ed pays one percent administrative fee on that loan and the guarantor may charge a guarantee fee, some of which can be used for administrative expenses.

Mr. MARTINEZ. So that cost will——

Mr. HEFFRON. You know, it is going to get paid by somebody somewhere along the line. It is not uncommon for schools to increase student financial aid packages for renewals to include the fees that they are going to pay to us the next year. I guess our point is that in an ideal world it would be wonderful if everything were free. As long as the budget is tight, this is not going to happen. We think the money would be better spent serving students who really need the help, students who are not getting a chance to get into the system. A free form is not enough, it is nowhere near enough to get those students to apply and to get through the system and get into the bureaucracy and get taken care of, it just is not enough. But if you dilute your money by subsidizing everybody, you are not going to have the money to give to those students who are going to need the help.

Mr. MARTINEZ. Thank you.

Mr. WILLIAMS. Mr. Swift.

Mr. SWIFT. Let us go back to the Inspector General who is currently being worked over, or at least his report is being worked over in the Department of Education. You said that essentially CEEB, the College Board, does not possess the operational capability to conduct its programs without ETS' assistance, thus CEEB by subcontracting almost all of the necessary contract work to ETS, will receive a profit of one and a half million dollars on an actual CEEB cost of $390,000. Let us break the questions down to a couple of things. First of all, what is the working relationship between the College Scholarship Service and the Educational Testing Service? Can you help us, Mr. Stewart?

Mr. STEWART. Yes, Mr. Swift, thank you. It is an interesting relationship dating back to 1947 when the Educational Testing Service was created by CEEB, along with ACE and the Carnegie Foundation. It was set up to be an independent test and measurement and research body for the nation, and that is the set of functions it has performed. It has all of the data processing capability that we need to support the CSS operation. We are now a contracting organization with ETS. They contract with us in the same manner they contract with business schools for business testing and financial aid processing, with medical schools, law schools, et cetera. We are not a business, we are an educational association which is made up of high schools and colleges. So what we do is work with our member institutions to serve students, depending on the technical capability of ETS in this case.

Mr. SWIFT. So when he says that you do not possess the operational capability, that means you do not have the computers?

Mr. STEWART. We do not have the computers.

Mr. SWIFT. So you contract that out.

Mr. STEWART. As do most organizations.

Mr. SWIFT. Okay. What does he mean that you get a profit of one and a half million on costs of $390,000?

Mr. STEWART. That I think is one of the several flaws in the Inspector General's draft report. It is not really a report as yet, we are waiting for the report. That was a leaked draft and it has been responded to by the Department of Education and by the College Board, but we would very much like to see the final report.

Mr. SWIFT. Boy, I think we all will. Certainly to compare it to the leaked draft. I yield back my time.

Mr. WILLIAMS. Mr. Durbin.

Mr. DURBIN. Mr. Wenman, welcome to Montana. I would like to ask you a question or two about the Illinois State Scholarship Commission. There has been a lot of talk around here about how it works and how much it is subsidized. You said something in your testimony that there are no state tax dollars involved in your operation. Can you elaborate on that?

Mr. WENMAN. We are under a fund accounting system as a state agency and we have two basic funds that we use, that we drive our organization from. One is a group of state funds which are allocated by the General Assembly on an annual basis from Illinois tax dollars. The other funds are related to Federal programs that we work with and are strictly in a separate fund. That is, they are not Illinois state tax dollars. The MDE process, the payments that come from the Department of Education, along with income that comes from other, most basically the Stafford program, are all part of Federal funds that are used to administer this process. As with ACT and College Board where they take a look at the base number of items that they will collect on their standard form, we have taken the opinion that we can take a look at a base number of items that we might normally collect for Stafford loan processing, and say that those are our base, and the incremental that is charged to the Department under the MDE process is associated with the incremental over and above those items.

Mr. DURBIN. So if I understand it, you are off-budget, you are funded by two separate funds. You are in fact a public entity which is supported by public tax dollars, though not directly by the Illinois State Treasury.

Mr. WENMAN. Correct.

Mr. DURBIN. Now let me ask you, I think the thing that I thought curious throughout the questioning here is that whenever there has been a reference to the fact that the Illinois State Scholarship Commission has come up with a bid lower than someone else, the first thing said is well clearly that is because they are subsidized. Now in the instance when the Illinois State Scholarship Commission joined in a competitive effort with some of the other representatives at this table, and I believe it was for the work of the State of California, the bid that was submitted, which was half of the bid submitted by Mr. Stewart's organization for the processing of these forms—now do we take it from what they are saying

that the Illinois taxpayers are going to subsidize that so that you can do the work in California?

Mr. WENMAN. There were absolutely no Illinois dollars included in that bid, none to support that bid whatsoever.

Mr. DURBIN. And your unit cost was sixty cents compared to College Board's cost of $1.21 or $1.22 per process of application?

Mr. WENMAN. Under the MDE process I cannot answer directly as far as where their dollar bid is right now, but is I believe 62 cents.

Mr. DURBIN. Is it your conclusion then that the Federal Government is being over-charged by these MDEs that are presently serving, the larger ones?

Mr. WENMAN. As noted in our testimony, one of the reasons that we got into the MDE process initially is we felt that a lack of competition was driving the price up and it seemed to be headed in the direction of doing away with the free form. Our involvement in the MDE system was to do what we could to see that that did not occur at a bare minimum for the Illinois students.

Mr. DURBIN. And so it is clear for the record, you are saying that whenever the Illinois State Scholarship Commission came in and said let us tell you what it would cost us to process outside the State of Illinois, that was an unsubsidized cost, just the flat out cost that you would incur as an MDE under some other name doing the work in some other state or for some other unit of government?

Mr. WENMAN. Correct.

Mr. DURBIN. Mr. Stewart, would you like to reply to that?

Mr. STEWART. I do not have a reply. I would only comment that it is my understanding certainly that the subsidy is not from the taxpayers from the State of Illinois, but the Illinois agency has something that organizations, educational associations, ACT, others do not have, and that is it has a loan program and the subsidy is coming through the Stafford loan operation and we cannot compete with that.

Mr. DURBIN. Mr. Stewart, the testimony, as I understand from Mr. Wenman, is that that is the case when it comes to Illinois scholarships, but not in outside bidding where they have competed with your company and come in with a unit cost one-half of what the College Board is charging. So the whole subsidy argument really does not apply to that situation and I would like to have your thoughts on why your costs would be so much higher than a smaller entity like the Illinois State Scholarship Commission.

Mr. STEWART. Our costs reflect the services that we pass on to our students. I am not familiar in any detail with what the Illinois student aid agency offers to students. I can only defend our own cost structure based on the multiple services that we offer to students and the added information that we send back to institutions that I do not believe Illinois does. So it is just—the difference in cost structure is a function of the difference in service structure.

Mr. DURBIN. One last question, has your company or the representatives of the ACT prepared any kind of response to the draft report from the Inspector General?

Mr. STEWART. Yes, indeed we did, we responded in writing and it is available for the record.

Mr. DURBIN. OK, I would like to ask that that be made part of the record since there has been a reference to the Inspector General's report.

Mr. STEWART. By all means.

Mr. WILLIAMS. That will be done.

[The referenced information follows:]

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

MAR 9 1988

MEMORANDUM

TO : C. Ronald Kimberling
Assistant Secretary for
Postsecondary Education

FROM : Mitchell L. Laine
Assistant Inspector General
for Audit

SUBJECT: Draft Management Improvement Report on Cost Savings Opportunities in the Procurement of Multiple Data Entry Services

Attached is a draft copy of the subject Management Improvement Report (MIR). The purpose of the MIR is to discuss several opportunities for achieving cost savings in the procurement of Multiple Data Entry services for the Pell Grant program and to make recommendations for the future procurement of these services.

Please review this draft and prepare any written comments or additional data you feel affect the accuracy, completeness, or understandability of the report. Your comments should be provided to this office within 15 days of this memorandum.

If you have any questions or would like to discuss the recommendations, please have your staff contact Guido Piacesi on 245-0271.

Attachment

400 MARYLAND AVE. S.W. WASHINGTON D.C. 20202

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

MANAGEMENT IMPROVEMENT REPORT NO. 88-

TO: C. Ronald Kimberling
Assistant Secretary for Postsecondary Education

FROM: Mitchell L. Laine
Assistant Inspector General for Audit

SUBJECT: Cost Savings Opportunities in the Procurement of Multiple Data Entry Services

The purpose of this memorandum is to discuss several opportunities for achieving cost savings in the procurement of Multiple Data Entry (MDE) services for the Pell Grant program and to make recommendations for the future procurement of these services. We noted that a lack of competition in the award of MDE contracts resulted in ED's failure to realize an estimated costs savings of $1.6 million through reductions in MDE student financial aid form development costs. Lack of competition in the procurement process also resulted in the awarding of one MDE contract with estimated excessive costs and profit totaling $2.9 million. Finally, a detailed cost benefit analysis is required to determine if ED needs both the Pell Grant and MDE processing systems to determine student eligibility for Federal student financial assistance.

Our observations are based on our preaward contract reviews of MDE proposals submitted in response to RFP 86-018. The proposals varied in amounts from $754,000 to $10.3 million depending on the estimated number of MDE forms to be processed. Based on these proposals, the U.S. Department of Education (ED) awarded four contracts with total fixed prices for development of MDE forms and also fixed unit prices for processing each MDE form. A detailed discussion of our observations and recommendations follows.

400 MARYLAND AVE. S.W. WASHINGTON, D.C. 20202

MDE Contracts Awarded On A Noncompetitive Basis

Competition is an important factor used by the Federal government in controlling its procurement costs. The Competition in Contracting Act established a requirement to use full and open competition in government procurement. However, ED's current policy for procuring MDE services resulted in the noncompetitive procurement of 1) the development of four separate and distinct student financial aid forms, and 2) four MDE processing contracts. This approach resulted in excessive development costs for a Federal financial aid application form. Further, because ED interpreted the Higher Education Act of 1965 to mean that ED is required to award no less than three MDE contracts, virtually all of the limited number of contractors who respond to the RFPs for MDE services are assured of receiving an MDE contract on a noncompetitive basis. Excessive costs and profit to one MDE contractor resulted.

Based on discussions with various program and procurement officials in Washington, D. C., ED's current policy of awarding no less than three contracts for the development and processing of no less than three MDE forms appears to be a misinterpretation of the requirements of Section 483(a) of Title IV of the Higher Education Act of 1965. Section 483(a) states in part, that the Secretary "...in cooperation with representatives of agencies and organizations involved in student financial assistance, shall prescribe a common Federal financial aid application form..." and "...to the extent practicable, enter into not less than three contracts with states, institutions of higher education, or private organizations for the purpose of processing the application...". Program officials have informed us that Section 483(a) has been interpreted to require ED to award no less than three MDE contracts, without regard for the "to the extent practicable" limitation in that section.

Based on ED's current interpretation of Section 483(a) requirements and the limited interest in providing MDE services (the two most recent RFPs for MDE services resulted in only 3 and 4 prospective contractors), virtually all of the prospective contractors are assured of receiving an MDE contract on a noncompetitive basis. Thus, the prospective contractors have no incentive to limit their proposed costs and profits to reasonable levels, nor any incentive to negotiate in good faith with ED to arrive at an equitable contract price. By placing the emphasis on the "to the extent practicable" limitation of Section 483(a), and by employing common prudent business practices, ED could procure the MDE services on a more competitive basis, and could obtain cost savings in the following areas:

- Reduced Development Costs - Despite the provisions of Section 483(a) which require the Secretary to "prescribe a common Federal financial aid application form," ED's most recent procurement of MDE services resulted in the development of four separate and distinct student financial aid forms. ED paid for separate development costs for each of the four forms, even though all of the forms contain identical information required to determine student eligibility for the Pell Grant program. Specifically, ED will expend approximately $1.9 million over the 3 year period of the current MDE contracts to develop four separate MDE forms, all of which perform the same function. Based on the requirements that "a common Federal aid application form" be developed, ED would realize a cost savings of approximately $1.6 million by competitively awarding only one contract to develop a single MDE form, usable by all students applying for Federal financial assistance. Our estimated cost savings represent the difference between the actual development costs for four different MDE forms under the current MDE contracts, totaling $1.9 million and the average development cost for the three MDE contractors whose development costs were based on RFP guidelines, averaging $230,000. We excluded the development costs of the fourth MDE contractor from our average cost computation since the contractor was non-responsive to RFP requirements and its development costs were totally unreasonable, being five times greater than any of the other three MDE contractors.

  Once a common MDE form has been developed, ED could competitively award an unspecified number of contracts for processing this form as contemplated in Section 483(a). As part of the processing contracts, ED could permit the processors to add additional data elements to the MDE form necessary for determining student eligibility for non-Federal assistance, if so desired by the processor. Any changes or modifications would be at the processor's expense.

- Improved Negotiating Position - Under ED's current policy regarding procurement of MDE services on a non-competitive basis, ED is forced to pay unreasonable prices for some MDE services. The primary examples of unreasonable pricing relate to the College Entrance Examination Board (CEEB) which will process 57 percent of the MDE forms under the current contract and will receive 65 percent of the total funding. CEEB, aware of its position as the largest MDE processor and secure in the knowledge that it is virtually assured of receiving an MDE contract under ED's procurement policy, has consistently proposed excessive cost and profit figures

to provide MDE services and has consistently refused to negotiate in good faith with ED. In addition, ED's current procurement policy regarding MDE services has severely limited, if not eliminated, any leverage available to the procurement and program officials involved in the MDE contract process toward obtaining concessions from CEEB during negotiation.

CEEB's advantageous negotiating position was not limited to the current MDE procurement but has been consistent throughout the history of the MDE program. In our report titled "Review of Contract Process" (ACN 11-40031, dated March, 1986), we specifically cited numerous procurement deficiencies in the negotiation of CEEB's previous MDE contract. These same deficiencies continued to exist in the recently completed negotiations with CEEB for MDE services. The following examples illustrate instances of CEEB's excessive costs and profits which were proposed, and ultimately received by CEEB, as part of its current MDE contract because CEEB refused to negotiate with ED's procurement and program officials:

- Excessive Development Costs - CEEB, unlike the remaining three MDE contractors, disregarded RFP guidelines regarding the proposal of development costs. The RFP contained estimates that developmental effort would consist of approximately 1,600 hours, the total hours used by three of the other contractors in preparing their proposals. CEEB however, used 6,013 hours for developmental effort in its proposals. As a result, CEEB's development costs amounted to $1.2 million, whereas development costs for the other three MDE contractors averaged $230,000, a difference of approximately $1.0 million, despite the fact that all of the MDE contractors were developing MDE forms which provided identical information. Consequently, CEEB, by ignoring RFP guidelines, received development costs approximately five times greater than any other MDE contractor.

- Excessive Printing and Distribution Costs - CEEB, unlike the remaining three MDE contractors, also disregarded RFP technical specifications which required that MDE contract proposals be based on a 3 to 1 ratio between forms printed and distributed versus forms processed. CEEB, however, elected to use a 5 to 1 ratio in its proposal, resulting in additional proposed costs of $1.3 million. Therefore, CEEB, by again disregarding RFP specifications, received favorable treatment from ED over

the three remaining MDE contractors, whose proposals were based on RFP specifications.

- Excessive Profit - CEEB proposed a profit margin of approximately 400 percent of its costs under the contract. CEEB's profit is based on 10 percent of the total contract cost. CEEB, however, subcontracted 98 percent of the contract work to Educational Testing Service (ETS). ETS has an exclusive contract with CEEB to assume operational responsibility for all of CEEB's programs, including the MDE program. Therefore, while CEEB and ETS claimed to be separate legal entities, they possess a less than arms length relationship in carrying out CEEB's programs. Essentially, CEEB does not possess the operational capability to conduct its programs without ETS' assistance. Thus, CEEB, by subcontracting almost all of the necessary contract work to ETS, will receive a profit of $1.5 million on actual CEEB costs of $390,000. As part of the MDE contract, ED is already paying ETS, the subcontractor, a profit of 12.1 percent for its work. A more equitable profit margin of 10 percent of CEEB's own costs, or $39,000, was rejected by CEEB during the negotiations.

All of the above issues, as well as several additional instances of CEEB's proposing excessive costs for MDE services, were raised at the negotiation. CEEB did propose a reduction of approximately $900,000 in its best and final offer to ED. However, since the above issues alone amount to approximately $3.8 million in excessive costs and profits, CEEB's proposed reduction was insufficient to arrive at a fair and equitable price, and CEEB received unreasonable costs and profit totaling at least $2.9 million. Since ED's procurement and program officials felt bound by ED's procurement policy of awarding at least three MDE contracts, they accepted CEEB's best and final offer, on the rationale that it was a significant decrease from the prior contract price rather than on an analysis of CEEB's proposed costs. If, the MDE contracts had been awarded on a competitive basis, CEEB would have been forced to limit its original proposal of costs and profit to more reasonable amounts, and ED's procurement and program officials would have had greater leverage for obtaining concessions from CEEB during negotiations.

Consequently, based on our analysis of ED's most recent procurement of MDE services, ED is not obtaining fair and equitable prices from all MDE contractors. Furthermore, if ED were to award the MDE contracts on a competitive basis, rather than on its current policy of awarding a predetermined number of MDE contracts on a noncompetitive basis, ED would

realize substantial cost savings in its MDE procurements and would eliminate any appearance of favorable treatment of any one MDE contractor.

Cost Benefit Analysis of MDE and Pell Grant Processing Systems Required

Although the use of competitive procurements for MDE services, as discussed above, should result in substantial cost savings to the Government during the next procurement of MDE services, additional analysis is required to determine if ED needs both the MDE and Pell Grant processing systems.

At present, ED is currently funding contracts to process Pell Grant applications and MDE forms, both of which serve an identical purpose, i.e., to determine a student's eligibility for the Pell Grant program. It would be beneficial for ED to perform a cost benefit analysis to determine if it is cost effective for ED to maintain both processing systems, i.e., would any significant cost savings result from a total reliance on either the MDE or Pell Grant processing system, e.g., the elimination of annual development costs for either the MDE or Pell Grant processing systems. ED's analysis should also consider the non-monetary benefits applicable to the applicants who use each system.

If such an analysis disclosed that either the MDE or Pell Grant processing system was not beneficial to the Government, ED should consider mandating the use of the most effective system by all Pell Grant applicants.

Recommendations

We recommend that the procurement of MDE services be modified as follows:

- ED should pay for development costs of only one MDE form by selecting one contractor on a competitive basis to develop it. Since Federal data elements are identical regardless of any other data required by an MDE form, it is not cost effective to fund multiple MDE forms. Further, such a practice appears contrary to Section 483(a) of Title IV of the Higher Education Act of 1965.

- ED should award all contracts for MDE form processing on a competitive basis with no predetermined number of MDE contracts to be awarded. The use of competitive procurements will permit ED to disqualify any bidders who submit unrealistic costs or profit figures or who disregard RFP specifications. Additionally, competitive awards will eliminate any appearance of favorable treatment to any one bidder by ED.

Additionally, we recommend that ED perform a detailed cost benefit analysis to determine the desirability of continuing to fund two separate systems for determining student eligibility for the Pell Grant program, i.e., MDE forms and Pell Grant application forms. If such an analysis disclosed that either the MDE or Pell Grant processing system was not beneficial to the Government, ED should consider mandating the use of the most effective system by all Pell Grant student applicants.

We would appreciate your views and comments concerning our recommendations within 30 days of the above date. If there are any questions please have your staff contact either Guido Piacesi, Elementary, Secondary and Special Programs Audit Branch, at (FTS) 245-0271, or John D'Angelo, Region II, at (FTS) 264-6580.

cc: Deputy Undersecretary for Management

The College Board
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College Scholarship Service

DRAFT REPORT ON MDE PROCUREMENT
BY THE DEPARTMENT OF EDUCATION'S INSPECTOR GENERAL

The draft Management Improvement Report prepared by the Department of Education Inspector General (IG), "Cost Savings Opportunities in the Procurement of Multiple Data Entry (MDE) Services," reflects a concern about ED's contracting procedures and with the specific appropriateness of prices paid to the College Board for MDE services. Although the federal government has every reason to seek assurance that its contractual relationships are being prudently managed, the draft report not only ignores several characteristics that differentiate Multiple Data Entry from other government contracts, but it also contains a number of significant factual errors.

This paper will cover both the background of the MDE process and also the specific criticism made of the College Board's price proposal. The first section outlines the history of the current MDE contracts, explaining the "incremental cost" philosophy embodied in MDE as a means of improving the effectiveness of the delivery system. The second section explores each of the IG's specific criticisms, providing detailed arguments to support the College Board's position that its reimbursement under the contract is justified. The third section concludes the paper with some comments on the implications of a standard "competitive" procurement.

I. MDE BACKGROUND

The IG report assumes that a Multiple Data Entry contract is analogous to other contracts through which the Department of Education obtains services, for example the processing of Pell Grant applications. Although the actual MDE tasks are, in fact, similar to those performed under other contracts, the relationships involved in MDE are significantly different. This circumstance may have been unknown to the IG, and warrants further discussion.

The Multiple Data Entry contracts have existed since 1979, having been authorized by the Higher Education Act. At that time, the federal government, reacting to public concern about the need of students to file several financial aid applications in order to be considered for all types of assistance, took action to permit the combining of the application for Pell Grants (then BEOG, the Basic Educational Grant Program) with documents like the College Scholarship Service (CSS) Financial Aid Form (FAF), which were used by postsecondary institutions

A nonprofit educational association serving students, schools, and colleges through programs designed to expand educational opportunity

and state agencies. This step represented an important means of reducing complexity in the system, and constituted a specific reaction to one of the most important recommendations of the National Task Force on Student Aid Problems, known as the "Keppel" Task Force after its chairman, Francis Keppel. The primary purpose of this initiative was to permit a student to have eligibility determined for all types of financial aid -- federal, state, and institutional -- through a single application.

In order to effect this outcome, one in which at least two application processes were merged with each other, the government's statement of work for the original MDE contract (and all subsequent ones) asked the prospective contractors to identify those tasks that were required to adapt their then existing systems in order to accept student applications for transmittal to ED's Pell Grant contractor. In that sense, the work for which a contractor was to be reimbursed was predicated not on the absolute cost of performing the work, but rather on the incremental cost of adapting an existing system to a new arrangement.

This same basic costing basis has continued up through the current procurement addressed by the Inspector General. As stated in the directions in the Department's 1986 RFP, the government will only pay costs:

> "above and beyond what normal costs for processing would be without its ED directed responsibilities.... The additional cost incurred to meet the requirements of this RFP is an increase over what the MDE contractor would normally do itself. In order to meet the requirements for preparing this cost proposal, therefore, the MDE contractor must provide the percentage of increased work/cost attributed to involvement in the MDE system."

There are several important consequences of this incremental costing basis.

- First, it must be recognized that the Department of Education does not underwrite the complete cost of processing an application and that, in the case of all MDE contractors, there is an additional source of funds that makes the complete service possible. For CSS, that source is the student fee, and every cent of the total cost of processing not paid by ED is ultimately paid by the student applicant.

- Second, each of the MDE processors presumably entered the MDE era from a different base point against which incremental costs were assessed; as a result, it is difficult to compare costs among the MDE's, because the share paid by the government finally depends on what modifications were necessary to the MDE agency's original system and operations.

- Third, from a contracting basis, the federal government was purchasing not just a specific service (e.g., transmittal of data), but also a relationship with a specific and established vendor that was intended to provide ED with easier access to a larger applicant universe than it might otherwise have achieved.

It should be emphasized that this system has worked very well, serving the needs of students, institutions, and state agencies effectively, while also providing Pell Grant application data to the Department of Education at a not unreasonable price.

During the 1986 procurement, ED apparently changed several of the rules that governed the relationship with the MDE service agencies, responding, according to current accounts, to the so-called "Competition in Contracting Law." Thus, although the fundamental nature of the desired service had not changed, the Department apparently intended to replace the historic sole source contract with standard competitive procurement procedures. On close examination of the IG's comments, one can easily conclude that the inherent conflict between the service being sought -- namely an incremental relationship with a pre-existing application provider -- and such competitive procurement protocols lies at the heart of the current misunderstanding. Specifically, although the number of pre-qualified vendors was extremely limited and the Department essentially intended to award contracts to each of them, the government's standard mechanism of conducting competitive procurements appears to have inhibited ED's ability to negotiate price aggressively. Ironically, under these circumstances, there is some reason to believe that the procedures typically followed under sole source procurements might have provided the government with more cost leverage.

II. SPECIFIC CRITICISM OF THE COLLEGE BOARD

In criticizing an outcome in which the College Board processes 57% of the MDE forms but receives 65% of the total reimbursement, the IG ignores both the history of the MDE relationship, previously discussed, and also the details of the current negotiations. The College Board's cost proposal was based on an empirical description of costs incurred under previous MDE contracts, costs which had been fully audited by the Department of Education. As such, the College Board contends that its proposal contained an accurate description of the costs it incurs in the provision of MDE services to the Department of Education.

As a result, the Board believes it should not be the subject of criticism if ED failed to insist on its own preferred cost outcome. Furthermore, it is both unfair and entirely inappropriate to ascribe "excessive cost and profit" to the Board's proposal or to assert that the Board "refused

to negotiate with ED's procurement and program officials." The record clearly shows a different story. Attachment A to this document is a chronology of actions leading to the current contract, and it reveals that the College Board answered all questions issued by the Department of Education and negotiated in good faith.

In turning to the individual items criticized by the Inspector General, the College Board believes that the following comments will help place the report in a clearer context:

1. Development Costs. The IG charges that the Board, unlike the other three MDE contractors, "disregarded RFP guidelines regarding the proposal of development costs." Specifically, the RFP indicated that development should be achieved in 1,600 hours of effort, although the final College Board proposal described the necessary effort as involving in excess of 6,000 hours. For whatever reasons, it appears that the other MDE contractors accepted the ED 1,600 hour estimate even while ED accepted the more descriptive College Board analysis based on experience.

   Two comments are appropriate about this circumstance:

   a. The College Board has consistently maintained and documented the reasons that the effort required to modify its system considerably exceeds the 1,600 hour estimate. This position has been thoroughly discussed with ED staff in both written and oral communications, most recently as part of the negotiations for the 1989-90 development task. While it may be true that the other MDE organizations have apparently accepted the ED constraint, it is impossible to tell whether such an estimate accurately reflects their costs. If the CSS experience is any indication, it would appear that these other organizations simply decided not to propose reimbursable development work beyond the ED estimate.

   b. In attempting to compare development costs for the various MDE organizations, therefore, one must be careful to use the correct cost base. If one equalizes costs along the 1,600 hour guideline to which the other contractors apparently adhere and assumes that the other proposals reflected the same distribution of the hours involved among staff classifications, then the following costs might have applied for the 1987-88 development year:

ACT	$ 66,728
PHEAA	77,185
ISSC	81,641
CSS	110,706

What this comparison indicates is that the primary reason for the difference in development costs has essentially nothing to do with the College Board's "competitiveness," but is rather related to fundamental differences in negotiating posture among the various contractors.

2. Printing and Distribution Costs. The IG report contends that the College Board's contract, unlike that of the other MDE contractors, is not based on a 3 to 1 ratio of forms printed and distributed versus forms processed. Although the College Board is not aware of the contents of the other MDE proposals, that statement is accurate with respect to the College Board and represents a position discussed at numerous points during the process.

The College Board presented its proposal using a 5:1 ratio based on its specific prior national experience concerning the number of forms that must be printed to support its processing activity. Although every effort is made to minimize the number of forms printed, CSS firmly believes (and has considerable evidence to support its contention) that this ratio represents the print quantity necessary to perform the work. Considerable documentation on this subject was presented to ED during contract discussions. Indeed, during the interrogatory phase, CSS questioned ED's own experience in this regard, citing evidence of a similar ratio for the federal form. These figures have been rechecked for 1987-88, and it appears that ED's print ratio for its own form continues to be much closer to the College Board's 5:1 than to the RFP's suggested 3:1.

As a result, throughout the negotiations, the College Board maintained consistently that the 3:1 ratio of the RFP represented an arbitrary and unsubstantiated standard. Because the higher number of forms would have to be printed to assure that students had adequate access to application documents, the College Board felt quite justified in taking this position. In the final analysis, however, the Department did not insist on its own ratio guideline and price structure, and, for whatever reason, accepted the College Board's argument, as documented.

3. College Board Fee. The IG alleges that the current contract generates "excessive profit" for the College Board because most of the work is contracted to Educational Testing Service (ETS), while the Board collects a fee for both its own ratio guideline and effort and that of its subcontractor. This criticism is unfair and unfounded on several counts:

a. The College Board and ETS, its subcontractor in this effort, are independent and separately chartered not-for-profit institutions, a matter explained to ED staff in considerable detail by letter on December 17, 1988 (see Appendix B). The term "profit" is simply inappropriate language.

b. The ETS fee, charged to the College Board in accordance with its contract with ETS, is a distinct and unavoidable cost to the College Board to accomplish the work involved. This fee applies to all work conducted by ETS for the College Board.

c. The fee to the College Board is appropriate for several reasons:

(1) The College Board assumes substantial financial risks in the MDE contract, in particular the consequences of the three-year fixed price structure which creates considerable financial exposure in the out years;

(2) The College Board is required to "finance" the relationship with its own resources because federal reimbursement arrives after the work is performed and expenses incurred;

(3) The College Board's prudent management and consistent experience provides ED access to more students and institutions than could be achieved otherwise.

In addition, it should not go without saying that the College Board provides extensive unreimbursed service to ED in working with applicants, school counselors, and financial aid administrators. It is precisely those endeavors, which are so necessary to the effective operation of the student aid partnership, that the College Board is able to afford, at least in part, because of this fee.

In reflecting on this problem, one should also keep in mind the fact that the College Board made a considerable price concession to ED during the "best and final" negotiation, a fact noted by the IG, but dismissed as inadequate. In making this concession, the College Board did not anticipate any reduction in expenses that it would incur in performing the work; none of the fundamental cost parameters changed. What this means is that the College Board's price reduction was, in essence, a concession against its fee. To take the 1987-88 processing year as an example, the College Board's original proposal carried a fee of $287,042, of which the College Board conceded $228,901 in its "best and final" proposal.

III. IG COMMENTS ON COMPETITIVENESS

In concluding this report, the Inspector General argues that a lack of competitiveness in the procurement practice of the Department caused the ED to accept a price proposal from the College Board that was not "fair and equitable." Specifically, the IG notes that "since ED's procurement and program officials felt bound by ED's procurement policy of awarding at least three MDE contracts, they accepted CEEB's best and final offer, on the rationale that it was a significant decrease from the prior contract price rather than on an analysis of CEEB's proposed costs." This statement leads the IG to argue for a "truly competitive" environment so that ED would have greater "leverage for obtaining concessions" during negotiations. These statements prompt several comments:

1. As already noted several times, during the negotiations ED staff never indicated that a contract would not be awarded if the proposal failed to adhere to the RFP outline on the subjects discussed. In vigorously representing its own position, the College Board assumed that the "incremental cost" rules remained in effect and responded completely and conscientiously to all the contracting officer's inquiries. It is not clear, therefore, whether a more "competitive" procurement, however that might be defined, would result in any different outcome if the ED staff do not insist on their cost guidelines.

2. Given the changes occurring in the student aid environment, in particular the influx of new, commercially oriented organizations, it is true that a "competitive" procurement might result in lower costs to ED. However, in all likelihood, those costs will be passed back to another party in equal measure, most probably the student applicant, either through student fees or a guarantee agency insurance premium.

3. Given an environment that might be characterized as "competitive" according to the IG's definition and a limited number of MDE slots, one possible outcome, though at lower cost to ED, might fail to satisfy other aspects of Section 483 of The Higher Education Act concerning the charging of a fee to students. In other words, to protect market share or because they might view the application as a critical front-end to the process, some prospective MDE's might propose a charge to ED of $0 for the MDE effort, but with a concomitant negative effect on students who will simply pay the cost in another way.

October 17, 1988
1180C

APPENDIX A

CHRONOLOGY OF THE COLLEGE BOARD'S
MDE CONTRACT PROPOSAL AND NEGOTIATIONS

1. The Department of Education issued RFP-86-018 on March 7, 1986.

2. The College Board submitted its response to the RFP on April 21, 1986, providing the comprehensive technical and cost proposal required by the RFP.

3. On May 29, 1986, ED issued an interrogatory concerning the technical proposal; of the specific issues raised by the Department, one involved an issue also later cited by the IG, namely the forms printing ratio.

4. The College Board responded to the interrogatory on June 11, 1986, providing a full response to all the questions, including a discussion of the forms ratio premise used in the Board's proposal.

5. With no reply to this information or further contact from ED, on June 11, 1986, ED asked the Board to extend its offer under the RFP until September 11, 1986. The Board agreed to this request on June 16, 1986.

6. With no interim contact from the Department, ED again asked, on September 11, 1986, the Board to extend its offer, a request which the Board granted on September 26, 1986.

7. On September 30, 1986, the Department asked the Board to sign a letter contract to cover MDE activities, and the Board did so the same day.

8. On October 21, 1986, ED issued an interrogatory for the cost component of the Board's proposal. Included in these questions were several related to issues raised by the IG, including development costs and the forms printing ratio.

9. The Board responded to those questions in full on November 7, 1986, including the two subsequently highlighted by the IG.

10. On December 12, 1986, ED staff met with representatives from the College Board and Educational Testing Service (ETS). This meeting was the only face-to-face discussion during the entire procurement. Several issues related to the earlier interrogatories were discussed, included among them all three specific topics raised by the IG (i.e., development costs, forms printing ratios, fees). ED requested that the Board review those issues and submit a "best and final" cost proposal, but <u>at no time directed</u> that the Board conform to the Department's preferences on those matters.

11. The Board responded on December 17, 1986, to several questions raised during the meeting, specifically the nature of the relationship between the College Board and its operational agent, ETS.

12. On December 22, 1986, the Board submitted a revision in its cost proposal, taking into account all information ED had provided concerning the contents of the audit report which was referenced during the December 12, 1986 negotiation. Because of problems associated with implementation of a revised independent student definition, the need for which arose subsequent to the original submission, it was necessary to adjust development costs upward. With respect to operational costs, however, the Board agreed to a significant reduction in its proposal, revising unit costs from $1.55 during the final year of the previous contract to $1.22 during the first year of the new contract, a 21% reduction. It was this proposal that ED accepted without further negotiation or discussion.

APPENDIX B

The College Board
45 Columbus Avenue New York, New York 10023-6917
(212) 713-8000

December 17,1986

Ms. Simone Cyr
Contract Specialist
U.S. Department of Education
ADPAC Branch, ADP Section
Grants and Contracts Section
GSA Building, Room 3633
Seventh and D Streets, SW
Washington, DC 20202

Dear Ms. Cyr:

At the December 12 negotiation, several questions were asked about the relationship between the College Board and its contractor, the Educational Testing Service (ETS). I hope the following will serve to clarify this relationship.

The College Entrance Examination Board (CEEB), commonly known as the College Board, is a nonstock, nonprofit corporation organized under the Education Law of the State of New York. It is an association of colleges, schools, associations, etc., and it has been chartered by the Board of Regents of the State of New York. The College Board operates its programs and services through several contractors, the largest of which are ETS, Touchstone Applied Sciences Associates (TASA), and Hadden Craftsmen, Inc.

The largest share of the College Board's work is contracted to ETS, an independent and separate entity which is also a nonprofit organization incorporated in New York State. ETS operates the day-to-day work of many of the College Board's more well known programs (the Admission Testing Program, Financial Aid Form, Advanced Placement Program, etc.) under a contract that describes the business and financial relationship. A major component of this contract obligates the College Board to conduct these programs at ETS. Each program is subject to a termination provision that, with notice, allows the work to be moved to another contractor. For processing of the Financial Aid Form, termination may occur thirty months after notice by the College Board. In addition, in order to insure an orderly transition to another contractor in the event of contract termination, the College Board has a five year royalty-free license for the use of software and other ETS-owned forms and materials.

The College Board is governed by a Board of Trustees elected by the members of the association at the annual meeting. Those standing for election are screened by a National Nominating Committee (composed entirely of representatives from members of the association) to ascertain that all potential Trustees are representative of the Membership; e.g., public and private institutions, schools and colleges, associations, school districts, etc. No member of the Board of Trustees is an employee or officer of ETS, nor is any member of the ETS Board of Trustees an employee of or appointed by the College Board.

The provision for what would happen to the College Board's net worth if it were to go out of business is covered by the College Board's corporate Charter, as required by New York State law. In this instance, all the net worth would revert to the State of New York.

The question of why the Department should contract with the College Board when ETS performs most of the contract is answered by the fact that the College Board holds the trademarks on its service and product names. The FAF processing is a proprietary service of the College Board. The College Board's membership base, composed of its service users, assures national distribution through the largest private financial aid network in the country.

To assure competitive and quality service, the College Board periodically reviews the program operations at ETS. The most recent, a third party external review, was conducted in 1984 and resulted in a streamlining of the FAF system. Economies resulting from these changes were passed on to the Department of Education in the price proposal.

Enclosed is a summary of the contract between the two organizations.

Sincerely,

Anthony J. Kearney
Vice President and Treasurer

AJK/kd
Enclosure

Mr. WILLIAMS. Thank you. Let me ask both the ACT representative and College Board, do I understand that you would be unwilling to voluntarily, using approximately the same forms you have now and seeking the same information—you would be unwilling to voluntarily designate the Federal data elements and provide a statement and an appropriate checkoff box that if the applicant was interested only in Federal aid, they could fill out this form free?

Mr. HEFFRON. No, we would not be unwilling to do that. I do not believe as recommended that leads to best forms design, but in past years up through 1982-1983, I believe we had a checkoff on our form that asked "Do you want to apply only for a Pell Grant". We are not unwilling to do that.

Mr. WILLIAMS. Thank you. College Board?

Mr. STEWART. Nor are we, Mr. Chairman, although we have the same reservations that have been expressed by ACT. The new system of embedded items is a little more than a year old and we would like to see how it works. But may I add one other statement, what is being suggested is a throw-back to a system that was used and was found unsatisfactory. There is an element in how the form is structured that has nothing to do with cost or control. But I would like to speak to it if I may, to the Committee.

I have spent most of my life working with students, for the most part, minority students, and I am very concerned that minority students do not avail themselves of the full range of opportunities that they have in higher education. Too many minority students only go for the free form and those programs that are covered by that form. They in turn go only to those institutions which would rely most heavily on only those programs, largely community colleges and proprietary schools. Far too few minority students are going on to four-year colleges and beyond. If they see a free form and they are told that if they are going to go on to other parts of the form they have to pay, they are going to stop right there and not go on. That translates all too often into their going into the lower cost schools where they never finish, they do not think through the full, as I said, range of opportunities. Today, we have a disproportionate number of minority students in community colleges and proprietary schools when they should be going on to four-year colleges and to graduate schools and so forth.

I think the way that form is structured and how that can be sensitively administered by a caring financial aid officer will do much to contribute to expanding educational opportunity and increased aspirations for minorities. I do not want to see them dead-ended as much as they are now.

Mr. WILLIAMS. We have heard today from financial aid administrators and other times as well, including administrators who work with minority students, who tell us that all the information on the form is not useful to them, they do not need it.

Mr. STEWART. Mr. Chairman, I am not a financial aid officer, never have been, but I think we have agreed that there are data elements, there are pieces of information on the form that are duplicative or overlapping. That is why we would like to enter into a partnership with you to go through that form to reduce the number of questions asked because there is some redundancy, but

there are elements in the parts of the form dealing with state aid and institutional aid that are very important to students if they want to go to four year institutions and beyond. I would not recommend that we eliminate those.

Mr. WILLIAMS. Well we want to thank this panel. You have been very helpful to us and we appreciate the frankness of your views as you approach the recommendations of the Committee. Again, I want to thank all of you for traveling to Montana. As you know, we like to get out of Washington as often as possible and many of us like to come to Montana as often as possible, so I appreciate you joining us here, and again my thanks to my colleagues who also joined us.

This hearing is adjourned.

[Whereupon, the Subcommittee was adjourned at 12:04 p.m.]

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